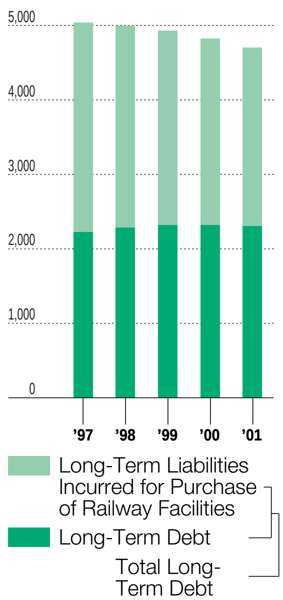
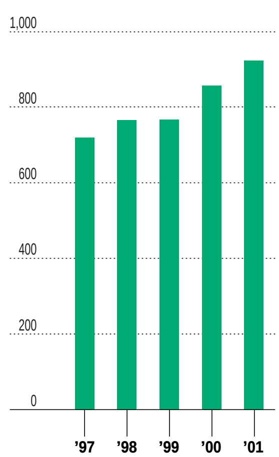
CONSOLIDATED FINANCIAL REVIEW

Total Long-Term Debt
(Billions of Yen)



Shareholders' Equity
(Billions of Yen)



Overview and Basic Financial Policy

During the year ended March 31, 2001(fiscal 2001), the Japanese economy experienced a trend of slow improvement with capital investment in the private sector recovering for the background of improvement of corporate profits. However, personal consumption, comprising the majority of private-sector demand remained subdued, without significant improvement in the employment and income environment. Further, the economy started to show signs of weakness again towards the end of the term, with exports and industrial production declining, affected by the overseas economic slowdown.

To overcome such a severe situation, JR East, with its consolidated subsidiaries, made efforts to establish a sound and stable management base by improving the efficiency of business operations by carrying out a scrupulous review of the overall expenses, coupled with reinforced endeavor to expand revenues. As a result, operating revenues increased 1.7% to ¥2,546.0 billion ($20,869 million), while operating income decreased 5.3% to ¥323.8 billion ($2,654 million) due to an increase in operating expenses through the adoption of the new accounting standard for retirement benefits. Due to reduced interest expense because of a decrease in long-term debt, net income increased 3.3% to ¥69.2 billion ($567 million). The shareholders' equity ratio rose to 12.7% at the end of fiscal 2001 from 11.7% at the end of fiscal 2000.

The number of consolidated subsidiaries for fiscal 2001 was unchanged from the last year's figure of 97. This is the result of an increase of three companies due to the additional acquisition of equity shares and a decrease by the same number through a merger and liquidation. The number of equity method affiliated companies decreased from the last year's figure of four companies to two as a result of an increase in the ownership by JR East (elimination of own shares) and a merger.

The basic financial policy is to maximize free cash flows. Reducing total long-term debt remains the most important issue for the time being with the recognition that strengthening financial position is still necessary. To ensure a sufficient level of funds to achieve debt reductions and meet other requirements, capital expenditures will basically continue to be conducted in an efficient manner so as not to exceed depreciation.

During fiscal 2001, total long-term debt was reduced by ¥119.2 billion ($976 million), resulting in total long-term debt of ¥4,699.7 billion ($38,521 million) on March 31, 2001.

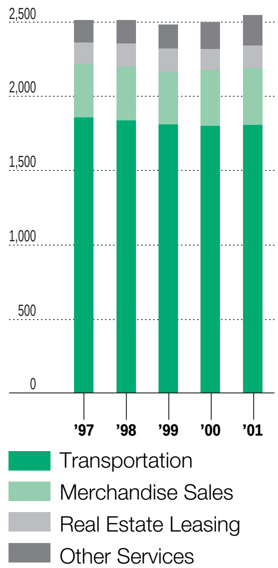
Payments for purchases of fixed assets totaled ¥343.5 billion ($2,816 million) in fiscal 2001. This figure includes expenditures partially funded by third parties, mainly governments and their agencies, which will benefit from the resulting facilities. One example is elevated railway lines built to eliminate grade crossings. Capital expenditures funded by the Companies were ¥297.0 billion ($2,434 million). Depreciation was ¥329.7 billion ($2,702 million).

Note: In this discussion, total long-term debt is the aggregate of long-term debt and long-term liabilities incurred for purchase of railway facilities, including the current portion.

Fiscal 2001 Results

Operating revenues increased 1.7% to ¥2,546.0 billion ($20,869 million) and operating income decreased 5.3% to ¥323.8 billion ($2,654 million). The ratio of operating income to operating revenues was 12.7%.

Operating Revenues
(Billions of Yen)



Transportation

In transportation, by using the five-route Shinkansen network, JR East carried out development of products that meet customers' diversified needs and conducted a detailed marketing program. As a result, operating revenues, including intersegment transactions, increased 0.5% to ¥1,873.7 billion ($15,358 million). Operating income decreased 10.5% to ¥264.0 billion ($2,164 million) because of a large increase in operating expenses due to the amortization of the shortfall in obligations for severance and retirement benefits.

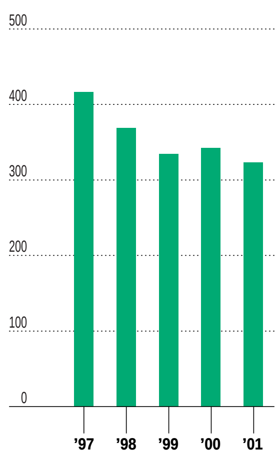
Merchandise Sales

In merchandise sales, the Companies developed new stores and promoted new store formats to strengthen sales through a tie-up with companies outside the Group. As a result, operating revenues, including intersegment transactions, increased 0.2% to ¥449.0 billion ($3,681 million). Operating income increased 55.3% to ¥9.0 billion ($74 million) by scrapping and building stores and raising the efficiency of business operations.

Real Estate Leasing (Shopping Centers)

In real estate leasing, the Companies promoted the development of new shopping centers, which mainly handle foods and general goods for daily use that are closely related to people's lifestyles. As for existing shopping centers, the Companies carried out major renewals and made efforts to introduce leading tenants capable of attracting customers. As a result, operating revenues, including intersegment transactions, increased 5.4% to ¥163.6 billion ($1,341 million). Operating income increased 8.9% to ¥35.4 billion ($291 million) because of effort to raise efficiency of operations.

Operating Income
(Billions of Yen)



Operating Results and Financial Position Summary

	Millions of Yen (except for per share data)				
	1997	1998	1999	2000	2001
For the Year:					
Operating Revenues	¥2,513,790	¥2,514,808	¥2,483,594	¥2,502,909	¥2,546,041
Operating Income	416,402	368,699	334,472	341,957	323,751
Net Income	70,661	66,235	21,929	66,963	69,174
Depreciation	274,133	283,711	319,687	329,583	329,651
Net Income and Depreciation	344,794	349,946	341,616	396,546	398,825
Net Income per Share of Common Stock (yen)	17,665	16,559	5,482	16,741	17,294
Net Income and Depreciation per Share of Common Stock (yen)	86,199	87,487	85,404	99,137	99,706
At Year-End:					
Total Assets	¥7,384,463	¥7,381,794	¥7,287,033	¥7,308,391	¥7,247,089
Long-Term Debt	2,223,163	2,285,063	2,320,246	2,319,664	2,307,483
Long-Term Liabilities Incurred for Purchase of Railway Facilities *	2,812,547	2,713,737	2,610,966	2,499,023	2,392,241
Total Long-Term Debt **	5,035,710	4,998,800	4,931,212	4,818,687	4,699,724
Total Shareholders' Equity	719,510	765,424	766,880	856,401	923,568

Notes:
1. There were 73 consolidated subsidiaries in fiscal 1997, 80 in fiscal 1998, 81 in fiscal 1999, 97 in fiscal 2000 and 97 in fiscal 2001.
2. Net income decreased significantly in fiscal 1999, mainly because "cash charges for additional obligation related to transfer to Welfare Pension" (see page 46) was accounted for in other expenses.
3. Tax effect accounting was adopted beginning with fiscal 2000.
4. Accounting for retirement benefits was adopted beginning with fiscal 2001.
5. Capital expenditures funded by JR East and its consolidated subsidiaries were ¥325,066 million in fiscal 1997, ¥268,425 million in fiscal 1998, ¥258,080 million in fiscal 1999, ¥288,106 million in fiscal 2000 and ¥296,957 million ($2,434 million) in fiscal 2001.

* Long-term liabilities incurred for purchase of the Tohoku and Joetsu Shinkansen facilities and the Akita hybrid Shinkansen facilities

** The weighted average interest rate on total long-term debt was 5.05% at the end of fiscal 1997, 4.79% at the end of fiscal 1998, 4.55% at the end of fiscal 1999, 4.40% at the end of fiscal 2000 and 4.18% at the end of fiscal 2001.

Other Services

Other services consist of hotel operations, advertising and publicity, card business, information processing, cleaning services, and other activities. In hotels, a new hotel was opened and aggressive marketing activities were conducted, such as joint advertising campaigns. In advertising, new formats were developed. In card business, the Companies enhanced convenience for customers. Furthermore, a shopping mall was opened on the Internet as a new business utilizing IT. As a result, operating revenues, including intersegment transactions, increased 9.3% to ¥371.2 billion ($3,042 million) and operating income increased 67.1% to ¥16.0 billion ($131 million).

Other Income (Expenses)

Total interest expense decreased 6.9% to ¥205.2 billion ($1,682 million). The weighted average interest rate on total long-term debt was 4.18% at the end of fiscal 2001 compared with 4.40% at the end of fiscal 2000.

Interest expense on short- and long-term debt, excluding long-term liabilities incurred for purchase of railway facilities, decreased 10.3% to ¥71.6 billion ($587 million) as a result of the ongoing reduction in long-term debt and the refinancing of debt at lower rates, reflecting continued low interest rates in Japan.

Interest expense incurred for purchase of railway facilities decreased 5.0% to ¥133.6 billion ($1,095 million). This decrease was due to the inherent increase in the proportion of each installment amount constituted by principal, since the payment in respect of the purchase price is made in equal semiannual installments, as well as a decrease in the interest proportion of such installments resulting from declining variable interest rates applicable to a substantial portion of long-term liabilities incurred for purchase of railway facilities (see page 51).

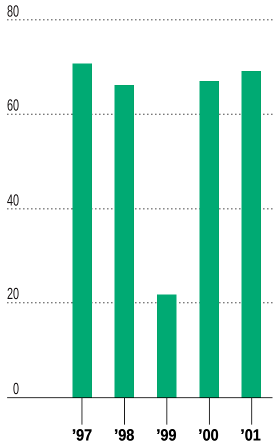
Equity in net income of affiliated companies decreased 11.1% to ¥2.6 billion ($21 million). Interest and dividend income increased 54.5% to ¥2.6 billion ($21 million). Other, net was income of ¥0.4 billion ($4 million). In fiscal 2000, this figure was an expense of ¥4.5 billion.

As a result, other expenses decreased 9.5% to ¥199.5 billion ($1,636 million).

Income Before Income Taxes and Net Income

Due to these factors, income before income taxes increased 2.2% to ¥124.2 billion ($1,018 million). Net income increased 3.3% to ¥69.2 billion ($567 million).

Net Income
(Billions of Yen)



Cash Flows

Net cash provided by operating activities decreased by ¥19.2 billion ($158 million) to ¥455.5 billion ($3,733 million) due to an increase in payments of income taxes (decrease in accrued income taxes), and other items.

Net cash used in investing activities was ¥266.3 billion ($2,183 million). This was the result of capital expenditures, which included measures to improve safety and stability, increase capacity, and construct shopping centers, hotels and other structures. Note that the payments for purchases of fixed assets includes purchases made using proceeds from construction grants (see page 32) and the net change in payables involving the purchase of fixed assets.

Net cash used in financing activities was ¥161.1 billion ($1,321 million). This was principally attributable to dividend payments and a net reduction of ¥119.2 billion ($976 million) in total long-term debt.

Due to these factors, cash and cash equivalents at the end of fiscal 2001 increased by ¥28.0 billion ($229 million) to ¥283.8 billion ($2,326 million).

Due to revisions to Regulation for Consolidated Financial Statements, consolidated statements of cash flows must be disclosed in Japan beginning with fiscal 2000. Consolidated statements of cash flows under new Japanese disclosure standards use presentation methods different to those of previous years, which were prepared for inclusion in the consolidated financial statements although such statements were not customarily prepared in Japan and not required to be filed for Securities and Exchange Law of Japan purposes (see page 48).

Capital Expenditures

The Companies carefully evaluate the benefits of each proposed capital expenditure to concentrate resources on strategic areas and maximize the benefits of the capital budget. Capital expenditures using the Companies' own funds were ¥297.0 billion ($2,434 million).

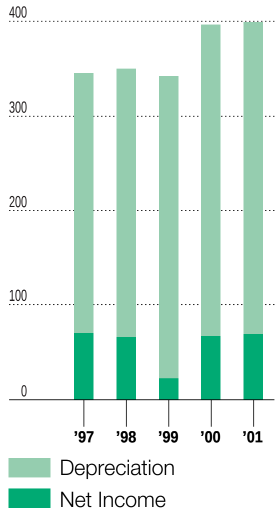
Expenditures for transportation were ¥215.0 billion ($1,762 million), consisting primarily of investments to ensure safety, to enhance customer services and to upgrade transportation services, such as introduction of the Automatic Train Stop-Pattern (ATS-P) devices, improvements at stations and introducing new rolling stock.

Expenditures for merchandise sales were ¥11.1 billion ($91 million), consisting of developments of new stores at or near stations, improvements of existing stores and other items.

Expenditures for real estate leasing (shopping centers) were ¥27.3 billion ($224 million), consisting of construction and renewal of shopping centers and other items.

Expenditures for other services were ¥43.6 billion ($357 million), consisting of construction of new hotels, developments and improvements of information systems and other items.

Net Income and Depreciation
(Billions of Yen)



Bond Issues and Ratings

New issues of bonds and borrowings of long-term loans are required annually to refinance a large amount of maturing total long-term debt.

In September 2000, the Company conducted a ¥30.0 billion ($246 million) bond issue with a 2010 maturity and a 2.00% coupon, and another issue of ¥20.0 billion ($164 million) with a 2020 maturity and a 2.65% coupon. In February 2001, the Company conducted a ¥30.0 billion ($246 million) bond issue with a 2011 maturity and a 1.70% coupon, and another issue of ¥10.0 billion ($82 million) with a 2021 maturity and a 2.30% coupon. All of the four were issued in Japan. These four issues were rated AAA by Rating and Investment Information, Inc., a Japanese rating agency. The terms of JR East's bond issues appropriately reflect the Company's credit ratings, degree of recognition among investors and many other factors. Accordingly, both issues were well received by the investment community. Bond issues in Japan and overseas will continue to be a vital source of funds for the Company.

The Company's long-term ratings from Standard & Poor's and Moody's are AA- and Aa2, respectively, as of July 2001.

CONSOLIDATED BALANCE SHEETS

EAST JAPAN RAILWAY COMPANY AND SUBSIDIARIES
March 31, 2000 and 2001

	Millions of Yen		Millions of U.S. Dollars (Note 2)
	2000	2001	2001
Assets			
Current Assets:			
Cash and cash equivalents (Note 4)	¥ 255,775	¥ 283,817	$ 2,326
Receivables:			
Accounts receivable–trade	116,709	138,492	1,135
Unconsolidated subsidiaries and affiliated companies	5,951	8,477	69
Other	13,395	13,514	112
Allowance for doubtful accounts (Note 2)	(402)	(954)	(8)
	135,653	159,529	1,308
Inventories (Notes 2 and 5)	31,659	25,371	208
Real estate for sale (Notes 2 and 6)	43,968	32,381	265
Deferred income taxes (Note 13)	21,963	28,753	236
Other current assets	34,924	31,928	262
Total current assets	523,942	561,779	4,605
Investments:			
Unconsolidated subsidiaries and affiliated companies (Notes 7 and 8)	114,500	134,217	1,100
Other (Note 8)	147,432	162,947	1,336
	261,932	297,164	2,436
Property, Plant and Equipment (Note 2):			
Buildings	1,695,158	1,734,697	14,219
Fixtures	4,720,213	4,725,670	38,735
Machinery, rolling stock and vehicles	2,056,648	2,107,491	17,275
Land	2,282,548	2,257,906	18,507
Construction in progress	149,531	106,176	870
Other	123,344	121,861	999
	11,027,442	11,053,801	90,605
Less accumulated depreciation	4,685,796	4,869,958	39,918
Net property, plant and equipment	6,341,646	6,183,843	50,687
Other Assets:			
Long-term deferred income taxes (Note 13)	29,359	64,322	527
Other	151,512	139,981	1,147
	180,871	204,303	1,674
	¥7,308,391	¥7,247,089	$59,402

See accompanying notes.

	Millions of Yen		Millions of U.S. Dollars (Note 2)
	2000	2001	2001
Liabilities and Shareholders' Equity			
Current Liabilities:			
Short-term bank loans (Note 10)	¥ 19,792	¥ 14,449	$ 118
Current portion of long-term debt (Note 10)	201,013	238,072	1,951
Current portion of long-term liabilities incurred for purchase of railway facilities (Note 11)	106,851	110,058	902
Prepaid railway fares received	109,101	105,078	861
Payables:			
Accounts payable-trade	57,880	62,666	514
Unconsolidated subsidiaries and affiliated companies	33,701	28,455	233
Other	406,720	367,577	3,013
	498,301	458,698	3,760
Accrued expenses	114,492	110,317	904
Accrued consumption tax (Note 12)	11,465	14,741	121
Accrued income taxes (Note 13)	64,301	56,126	460
Other current liabilities	29,270	43,907	361
Total current liabilities	1,154,586	1,151,446	9,438
Long-Term Debt (Note 10)	2,118,651	2,069,411	16,962
Long-Term Liabilities Incurred for Purchase of Railway Facilities (Note 11)	2,392,172	2,282,183	18,706
Accrued Severance and Retirement Benefits (Notes 2 and 14)	441,937	483,248	3,961
Deposits Received for Guarantees	256,613	245,822	2,015
Long-Term Deferred Tax Liabilities (Note 13)	3,961	2,681	22
Other Long-Term Liabilities	58,153	58,891	483
Consolidation Difference	—	816	7
Minority Interests	25,917	29,023	238
Contingent Liabilities (Note 15)			
Shareholders' Equity (Notes 16 and 20):			
Common stock, ¥50,000 par value:			
Authorized 16,000,000 shares;			
Issued and outstanding 4,000,000 shares	200,000	200,000	1,639
Additional paid-in capital	96,600	96,600	792
Retained earnings	559,801	626,968	5,139
Total shareholders' equity	856,401	923,568	7,570
	¥7,308,391	¥7,247,089	$59,402

CONSOLIDATED STATEMENTS OF INCOME

EAST JAPAN RAILWAY COMPANY AND SUBSIDIARIES
Years ended March 31, 1999, 2000 and 2001

	Millions of Yen			Millions of U.S. Dollars (Note 2)
	1999	2000	2001	2001
Operating Revenues (Note 17)	¥2,483,594	¥2,502,909	¥2,546,041	$20,869
Operating Expenses (Note 17):				
Transportation, other services and cost of sales	1,711,610	1,718,874	1,722,744	14,121
Selling, general and administrative expenses	437,512	442,078	499,546	4,094
	2,149,122	2,160,952	2,222,290	18,215
Operating Income (Note 17)	334,472	341,957	323,751	2,654
Other Income (Expenses):				
Interest expense on short- and long-term debt	(84,169)	(79,806)	(71,585)	(587)
Interest expense incurred for purchase of railway facilities.	(146,718)	(140,615)	(133,570)	(1,095)
Interest and dividend income	2,219	1,680	2,596	21
Equity in net income of affiliated companies	8,481	2,922	2,598	21
Cash charges for additional obligation related to transfer to Welfare Pension (Note 2)	(70,475)	—	—	—
Other, net	9,128	(4,519)	445	4
	(281,534)	(220,338)	(199,516)	(1,636)
Income Before Income Taxes	52,938	121,619	124,235	1,018
Income Taxes (Note 13):				
Current	29,231	79,103	95,446	782
Deferred	—	(25,313)	(42,570)	(349)
Minority Interests in Net Income of Consolidated Subsidiaries	(1,778)	(866)	(2,185)	(18)
Net Income	¥ 21,929	¥ 66,963	¥ 69,174	$ 567

	Yen			U.S. Dollars (Note 2)
Net Income per Share of Common Stock (Note 2)	¥ 5,482	¥ 16,741	¥ 17,294	$ 142

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

EAST JAPAN RAILWAY COMPANY AND SUBSIDIARIES
Years ended March 31, 1999, 2000 and 2001

	Number of Shares of Common Stock (Thousands)	Millions of Yen		
		Common Stock	Additional Paid-in Capital	Retained Earnings
Balance at March 31, 1998	4,000	¥200,000	¥96,600	¥468,824
Net income				21,929
Cash dividends (¥5,000 per share)				(20,000)
Bonuses to directors and corporate auditors				(473)
Balance at March 31, 1999	4,000	200,000	96,600	470,280
Cumulative effect of adopting tax effect accounting				21,646
Increase due to addition of consolidated subsidiaries				9,180
Increase due to capital increase of an equity method affiliated company				12,580
Net income				66,963
Cash dividends (¥5,000 per share)				(20,000)
Bonuses to directors and corporate auditors				(428)
Decrease due to addition of equity method affiliated companies				(420)
Balance at March 31, 2000	4,000	200,000	96,600	559,801
Effect of changing from an equity method affiliated company to a subsidiary				941
Increase due to capital increase of an equity method affiliated company				18,529
Net income				69,174
Cash dividends (¥5,000 per share)				(20,000)
Bonuses to directors and corporate auditors				(536)
Effect of changing from an equity method affiliated company to a subsidiary				(941)
Balance at March 31, 2001	4,000	¥200,000	¥96,600	¥626,968

	Millions of U.S. Dollars (Note 2)		
	Common Stock	Additional Paid-in Capital	Retained Earnings
Balance at March 31, 2000	$1,639	$792	$4,589
Effect of changing from an equity method affiliated company to a subsidiary			8
Increase due to capital increase of an equity method affiliated company			152
Net income			567
Cash dividends ($40.98 per share)			(164)
Bonuses to directors and corporate auditors			(5)
Effect of changing from an equity method affiliated company to a subsidiary			(8)
Balance at March 31, 2001	$1,639	$792	$5,139

See accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS (Note 3)

EAST JAPAN RAILWAY COMPANY AND SUBSIDIARIES
Year ended March 31, 1999

	Millions of Yen
	1999
Cash Flows From Operating Activities:	
Net income	¥ 21,929
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation (Note 17)	319,687
Provision for severance and retirement benefits	57,454
Undistributed earnings of an affiliated company	(7,781)
Increase in receivables	(2,017)
Increase in inventories	(7,319)
Increase in real estate for sale	(2,047)
Decrease in prepaid railway fares received	(607)
Increase in payables	12,905
Decrease in accrued expenses	(5,630)
Decrease in accrued consumption tax	(10,778)
Decrease in accrued income taxes	(21,220)
Decrease in deposits received for guarantees	(16,828)
Increase in minority interests	1,495
Other	26,053
Net cash provided by operating activities	365,296
Cash Flows From Investing Activities:	
Purchase of property, plant and equipment	(312,526)
Decrease in investments and other assets	30,444
Net cash used in investing activities	(282,082)
Cash Flows From Financing Activities:	
Proceeds from commercial paper	20,000
Payments of short-term bank loans	(4,710)
Proceeds from long-term debt	341,549
Payments of long-term debt	(306,366)
Payments of liabilities incurred for purchase of railway facilities	(102,771)
Cash dividends paid	(20,000)
Net cash used in financing activities	(72,298)
Net Increase in Cash and Cash Equivalents	10,916
Cash and Cash Equivalents at Beginning of Year	226,944
Cash and Cash Equivalents at End of Year	¥237,860
Supplemental Disclosures of Cash Flow Information:	
Cash Paid During the Year for:	
Interest	¥244,424
Income taxes	44,932

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Note 3)

EAST JAPAN RAILWAY COMPANY AND SUBSIDIARIES
Years ended March 31, 2000 and 2001

	Millions of Yen		Millions of U.S. Dollars (Note 2)
	2000	2001	2001
Cash Flows From Operating Activities:			
Income before income taxes	¥121,619	¥124,235	$1,018
Depreciation (Note 17)	329,583	329,651	2,702
Amortization of long-term prepaid expense	21,391	19,566	160
Increase (Decrease) in accrued severance and retirement benefits	(3,013)	43,193	354
Interest and dividend income	(1,680)	(2,596)	(21)
Interest expense	220,421	205,155	1,682
Construction grants received	(56,045)	(119,073)	(976)
Loss from disposition and provision for cost reduction of fixed assets	68,929	142,424	1,167
Decrease (Increase) in major receivables	5,209	(18,456)	(151)
Increase (Decrease) in major payables	(11,253)	18,980	156
Other	17,228	19,936	163
Sub-total	712,389	763,015	6,254
Proceeds from interest and dividends	2,091	3,288	27
Payments of interest	(222,810)	(207,038)	(1,697)
Payments of income taxes	(16,955)	(103,795)	(851)
Net cash provided by operating activities	474,715	455,470	3,733
Cash Flows From Investing Activities:			
Payments for purchases of fixed assets	(353,728)	(343,510)	(2,816)
Proceeds from sales of fixed assets	19,524	19,271	158
Proceeds from construction grants	67,452	68,196	559
Payments for purchases of investments in securities	(31,553)	(23,041)	(189)
Proceeds from(Payments for)shares of companies newly consolidated, net of cash acquired	(3,509)	1,130	9
Other	9,376	11,635	96
Net cash used in investing activities	(292,438)	(266,319)	(2,183)
Cash Flows From Financing Activities:			
Payment for redemption of commercial paper	(20,000)	—	—
Proceeds from long-term loans	144,922	147,945	1,213
Payments of long-term loans	(203,800)	(203,327)	(1,667)
Proceeds from issues of bonds	60,000	90,000	738
Payment for redemption of bonds	(2,022)	(47,010)	(385)
Payments of liabilities incurred for purchase of railway facilities	(111,943)	(106,781)	(875)
Cash dividends paid	(20,000)	(20,000)	(164)
Other	(15,290)	(21,936)	(181)
Net cash used in financing activities	(168,133)	(161,109)	(1,321)
Net Increase in Cash and Cash Equivalents	14,144	28,042	229
Cash and Cash Equivalents at Beginning of Year	237,860	255,775	2,097
Net Increase due to Addition of Consolidated Subsidiaries	3,771	—	—
Cash and Cash Equivalents at End of Year	¥255,775	¥283,817	$2,326

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EAST JAPAN RAILWAY COMPANY AND SUBSIDIARIES
March 31, 1999, 2000 and 2001

1. Incorporation of East Japan Railway Company

In accordance with the provisions of the Law for Japanese National Railways Restructuring (the Law), the Japanese National Railways (JNR) was privatized into six passenger railway companies, one freight railway company and several other organizations (JR Companies), on April 1, 1987.

East Japan Railway Company (the Company) is one of the six passenger railway companies and serves eastern Honshu in Japan. The Company operates 70 railway lines, 1,709 stations and 7,538 operating kilometers.

In the wake of the split-up of JNR, assets owned by and liabilities incurred by JNR were transferred to JR Companies, Shinkansen Holding Corporation and JNR Settlement Corporation (JNRSC). Most JNR assets located in eastern Honshu, except for the land and certain railway fixtures used by two Shinkansen lines, were transferred to the Company. Current liabilities and accrued severance and retirement benefits, incurred in connection with railway and other operations in the allotted area, and certain long-term debt were assumed by the Company.

The transfer values were determined by the Evaluation Council, a governmental task force, in accordance with the provisions of the Law. In general, railway assets such as railway property and equipment were valued at net book value of JNR. Nonrailway assets such as investments and other operating property and equipment were valued at prices determined by the Evaluation Council.

The land and railway fixtures of the Tohoku Shinkansen and the Joetsu Shinkansen lines were owned by Shinkansen Holding Corporation until September 30, 1991, and the Company leased such land and railway fixtures at a rent determined by Shinkansen Holding Corporation in accordance with related laws and regulations. On October 1, 1991, the Company purchased such Shinkansen facilities for a total purchase price of ¥3,106,970 million from Shinkansen Holding Corporation. Subsequent to the purchase, Shinkansen Holding Corporation was dissolved. Railway Development Fund succeeded all rights and obligations of Shinkansen Holding Corporation (see Note 11). In October 1997, Railway Development Fund and Maritime Credit Corporation merged to form Corporation for Advanced Transport & Technology.

In accordance with the provisions of the Law for Passenger Railway Companies and Japan Freight Railway Company, the Company is required to obtain approval from the Minister of Land, Infrastructure and Transport as to significant management decisions, including new issues of stock or bonds, borrowing of long-term loans, election of representative directors and corporate auditors, sale of major properties, amendment of the Articles of Incorporation and distribution of retained earnings.

2. Significant Accounting Policies

Basis of the consolidated financial statements

The Company and its consolidated subsidiaries maintain their books of account in accordance with the Japanese Commercial Code and accounting principles generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The Company's and certain consolidated subsidiaries' books are also subject to the Law for Railway Business Enterprise and related regulations for a regulated company.

The accompanying consolidated financial statements are translated into English from the consolidated financial statements prepared for Securities and Exchange Law of Japan purposes. Certain modifications and reclassifications, including the presentation of the Consolidated Statements of Shareholders' Equity, have been made for the convenience of readers outside Japan who are not familiar with Japanese accounting principles and practices. Consolidated statements of cash flows are required to be disclosed in Japan beginning with the year ended March 31, 2000 (see Note 3).

The consolidated financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2001, which was ¥122 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Consolidation

The consolidated financial statements of the Company include the accounts of all significant subsidiaries (together the "Companies"). Beginning with the year ended March 31, 2000, the effective-control standard was applied due to the revisions to Regulation Concerning Terminology, Forms and Method of Presentation of Consolidated Financial Statements in Japan (Regulation for Consolidated Financial Statements). This change had no material impact on the Companies' operating results or financial position. For the years ended March 31, 2000 and 2001, 97 subsidiaries were consolidated. Three subsidiaries increased in the year ended March 31, 2001 compared with the year ended March 31, 2000 because the Company additionally increased their ownership. Three subsidiaries decreased in the year ended March 31, 2001 compared with the year ended March 31, 2000 because of a merger and liquidation.

All significant intercompany transactions and accounts have been eliminated. Cost in excess of net assets of consolidated subsidiaries purchased is analyzed and allocated to appropriate accounts so long as the reason is clear and the remaining unknown portion is accounted for as consolidation difference. Such consolidation differences are amortized over 5 years on a straight line basis.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

Equity method

For the year ended March 31, 2001, investments in JAPAN TELECOM CO., LTD. and J-Phone East Co., Ltd. were accounted for by the equity method. For the year ended March 31, 2000, four affiliated companies were accounted for by the equity method. The number of equity method affiliated companies decreased because one equity method affiliated company subsequently became a consolidated subsidiary as a result of elimination of repurchased common stock which increased ownership by the Company, and a merger of two equity method affiliated companies. Beginning with the year ended March 31, 2000, the effective-influence standard was applied due to the revisions to Regulation for Consolidated Financial Statements. This change had no material impact on the Companies' operating results or financial position.

Investments in unconsolidated subsidiaries and other affiliated companies are stated mainly at weighted average cost since their equity earnings in the aggregate are not material in relation to the consolidated net income and retained earnings.

Allowance for doubtful accounts

Previously, an allowance for doubtful accounts had been mainly provided at the maximum amount deductible for the Japanese Tax Law. Beginning with the year ended March 31, 2001, the Accounting Standard for Financial Instruments has been operative. In general, the Companies provide the allowance based on the past loan loss experience for a certain reference period. Furthermore, for receivables with financial difficulty which could affect the debtors' ability to perform their obligations, the allowance is provided for estimated unrecoverable amounts individually. This change had no material impact on the Companies' operating results or financial position.

Inventories

Inventories are stated at cost as follows:

Merchandise inventories: the retail cost method or first-in, first-out method;
Rails, materials and supplies: the moving average cost method; and
Other: the last purchased cost method

Real estate for sale

Real estate for sale is stated at the identified cost method. Devaluation loss on real estate for sale included in the other, net item of other expenses on the statement of income for the years ended March 31, 2000 and 2001 were ¥7,684 million and ¥6,850 million ($56 million), respectively.

Securities

Beginning with the year ended March 31, 2001, the Companies adopted the new Japanese Accounting Standard for Financial Instruments.

In accordance with the new accounting standard, at April 1, 2000, the Companies examined the intent of holding each security and classified those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. The Companies had no trading securities through the year ended March 31, 2001. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are mainly stated at moving average cost. Available-for-sale securities are mainly stated at moving average cost.

Previously, the securities of the Companies are mainly stated at weighted average cost.

These changes had no material impact on the Companies' operating result or financial position.

Also, based on the examination of the intent of holding each security upon application of the new accounting standard at April 1, 2000, available-for-sale securities similar to deposits as well as held-to-maturity debt securities and available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments. As a result, at April 1, 2000, securities in current assets decreased by ¥2,331 million ($19 million) and investments increased by the same amount compared with what would have been reported under the previous accounting policy.

For the year ended March 31, 2001, a ¥3,861 million ($32 million) devaluation loss on securities is included in the other, net item of other expenses on the statement of income.

Property, plant and equipment

Property, plant and equipment are stated at cost or the transfer value referred to in Note 1 above. To comply with the regulations, contributions received in connection with construction of certain railway improvements are deducted from the cost of acquired assets. Depreciation is determined primarily by the declining balance method based on the estimated useful lives of the assets as prescribed by the Japanese Tax Law.

Regarding the replacement method for certain fixtures, the initial acquisition costs are depreciated to 50% of the costs under the condition that subsequent replacement costs are charged to income.

Buildings (excluding related fixtures) acquired from April 1, 1998 onward were depreciated using the straight-line method according to the Japanese Tax Law.

The range of useful lives is mainly as follows:

Buildings	3 to 50 years
Fixtures	3 to 60 years
Rolling stock and vehicles	3 to 20 years
Machinery	3 to 20 years

Due to Securities and Exchange Law of Japan and related regulations, consolidated semi-annual financial statements have been required to be disclosed beginning with the interim period ended September 30, 2000. Together with this change, the Companies changed the grouping of property, plant and equipment from former "rolling stock and vehicles" and "machinery and equipment" to "machinery, rolling stock and vehicles" and "other".

Accounting for the payment for transfer to Welfare Pension

At the merger of mutual aid associations of three public corporations including Japan Railways Group Mutual Aid Association (the Association) to Welfare Pension (national pension) in accordance with the enforcement of revision of the Welfare Pension Law and the related regulations in 1996 (1996 Law No. 82), fund assets of the respective mutual aid associations were transferred to Welfare Pension. The shortage of the assets to be transferred to the Welfare Pension from the Association was shared by JNRSC and JR Companies on the basis that JNRSC would be liable for the period each member of the Association was employed by JNR, and the JR Companies for the period the member of the Association was in their employment.

The portion shared by the Company amounting to ¥77,566 million was paid in a lump sum. This is accounted for as a long-term prepaid expense included in the other item of other assets on the balance sheet and is charged to income for the five years since the year ended March 31, 1998 on a straight-line basis. The balance at March 31, 2001 amounted to ¥15,513 million ($127 million).

Additionally, in accordance with the enactment of the Law for Disposal of Debts and Liabilities of the Japanese National Railways Settlement Corporation (1998 Law No. 136) (JNRSC Liabilities Disposition Law), the JR Companies were obligated to assume half of the liabilities with regard to their employees as of April 1, 1987 that are included in JNRSC liabilities to be assumed under the 1996 Law.

The resulting additional obligation of ¥70,475 million, including the interest portion, was paid by the Company in a lump sum on March 3, 1999 and was accounted for as "cash charges for additional obligation related to transfer to Welfare Pension" included in other expenses on the statement of income.

Accounting for retirement benefits

Almost all employees of the Companies are generally entitled to receive lump sum severance and retirement benefits (some subsidiaries have adopted a pension plan of their own). The amounts of the severance and retirement benefits are determined by the length of service and basic salary at the time of severance or retirement of the employees. Previously, most of the Companies accrued a liability for such obligation equal to 40% of the amount required if all eligible employees had voluntarily terminated their employment at the balance sheet date.

The new Japanese Accounting Standard for Retirement Benefits has been operative beginning with the year ended March 31, 2001. The Companies accrue liabilities for post-employment benefits at the balance sheet date in an amount calculated based on the actuarial present value of all post-employment benefits attributed to employee services rendered prior to the balance sheet date and the fair value of plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "transition obligation") was ¥500,401 million ($4,102 million). The unrecognized transition obligation amounting to ¥497,914 million ($4,081 million) is charged to income over 10 years from the year ended March 31, 2001 on a straight line basis. And the rest of the transition obligation, amounting to ¥2,487 million ($21 million), was recognized as an expense and was included in other, net item of other expenses on the statement of income.

Actuarial gains and losses are recognized in expenses using the straight line basis over constant years (mainly 10 years) within the average of the estimated remaining service lives commencing with the following year.

As a result of these changes, expenses for the year ended March 31, 2001 increased by ¥50,812 million ($417 million) compared with what would have been under the previous accounting methods, reducing operating income by ¥48,325 million ($396 million) and income before income taxes by ¥50,812 million ($417 million).

Accounting for certain lease transactions

Finance leases which do not transfer titles to lessees are accounted for in the same manner as operating leases under accounting principles generally accepted in Japan.

Accounting for research and development costs

According to the Accounting Standards for Research and Development Costs, etc., in Japan, research and development costs are recognized as they are incurred beginning with the year ended March 31, 2000. Research and development costs included in operating expenses for the years ended March 31, 2000 and 2001 were ¥13,003 million and ¥13,507 million ($111 million), respectively.

Income taxes

Due to a revision in Regulation for Consolidated Financial Statements, the Companies adopted tax effect accounting beginning with the year ended March 31, 2000 (see Note 13).

Income taxes comprise corporation, enterprise and inhabitants taxes.

Net income per share

The computation of net income per share of common stock shown in the consolidated statements of income is based on the number of shares of common stock outstanding during each year.

The diluted net income per share is not shown, since there are no outstanding securities with dilutive effect on net income per share such as convertible bonds.

Derivative transactions

The new Japanese Accounting Standard for Financial Instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

All derivative transactions of the Companies are used for hedging purposes through the year ended March 31, 2001, and are accounted for in the following manner:

Regarding forward exchange contracts and foreign currency swap contracts, the hedged foreign currency receivable and payable are recorded using the Japanese yen amount of the contracted forward rate or swap rate, and no gains or losses on the forward exchange contracts or foreign currency swap contracts are recorded.

Regarding interest rate swap contracts, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Foreign currency transaction

Beginning with the year ended March 31, 2001, the Companies adopted the revised Japanese Accounting Standard for Foreign Currency Transaction. This change had no impact on the Companies' operating result or financial position.

3. Changes in Presentation

Due to revision to Regulation for Consolidated Financial Statements, consolidated statements of cash flows are required to be disclosed in Japan beginning with the year ended March 31, 2000. Consolidated statements of cash flows based on the new accounting standards use presentation methods different to those of previous years, which were prepared for inclusion in the consolidated financial statements although such statements were not customarily prepared in Japan and were not required to be filed for Securities and Exchange Law of Japan purposes. The major differences are as follows:

Amortization of long-term prepaid expense is listed under Cash Flows From Operating Activities. Previously, it was included in Cash Flows From Investing Activities.

Payments of interest and income taxes are listed under Cash Flows From Operating Activities. Previously, they were listed under Supplemental Disclosures of Cash Flow Information.

Proceeds from sales of fixed assets and proceeds from construction grants are listed under Cash Flows From Investing Activities. Previously, they were included in Cash Flows From Operating Activities.

4. Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with maturities not exceeding three months at the time of purchase.

5. Inventories

Inventories consist of rails, materials, supplies, merchandise and others.

6. Real Estate for Sale

Real estate for sale represents the cost of land acquired and related land improvements in connection with residential home site developments in Higashiotsuki, which is about 90 kilometers from Tokyo, and other areas.

7. Investments in and Advances to Unconsolidated Subsidiaries and Affiliated Companies

Investments in and advances to unconsolidated subsidiaries and affiliated companies at March 31, 2000 and 2001, consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2000	2001	2001
Unconsolidated subsidiaries:			
Investments	¥ 4,952	¥ 6,072	$ 50
Advances	1,459	1,341	11
	6,411	7,413	61
Affiliated companies:			
Investments (including equity in earnings and capital increase of affiliated companies)	¥107,689	¥126,804	$1,039
Advances	400	—	—
	108,089	126,804	1,039
	¥114,500	¥134,217	$1,100

8. Market Value Information for Securities

The following is a summary of book value, market value and net unrealized gains of quoted securities included in investments at March 31, 2000.

	Millions of Yen
	2000
Book value	¥224,950
Market value	533,690
Net unrealized gains	¥308,740

Net unrealized gains at March 31, 2000 were mainly composed of shares of JAPAN TELECOM CO., LTD., an equity method affiliated company.

As mentioned in Note 2 above, the Companies adopted the new Japanese Accounting Standard for Financial Instruments beginning with the year ended March 31, 2001.

Information concerning available-for-sale securities with fair market values as of March 31, 2001 was as follows;

	Millions of Yen	Millions of U.S. Dollars
	2001	2001
Book value	¥153,701	$1,260
Fair market value	104,100	853
Amount corresponding to net holding losses on securities	(28,581)	(234)
Amount corresponding to applicable income taxes	20,719	170
Amount corresponding to minority interests	200	2

Amount corresponding to net holding losses on securities included the Companies' shares of the amount corresponding to net holding gains of available-for-sale securities owned by equity method affiliated companies.

According to the new standards, available-for-sale securities with fair market values will be stated at fair market value beginning with the year ended March 31, 2002. The unrealized gain or loss will be reported, net of applicable income taxes and minority interests, as a separate component of shareholders' equity.

9. Pledged Assets

At March 31, 2001, buildings and fixtures with net book value of ¥70,260 million ($576 million) and other assets of ¥5,234 million ($43 million) were pledged for as collateral for long-term debt and other liabilities.

10. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans are represented by notes maturing generally within one year. The annual interest rates applicable to such loans outstanding at March 31, 2000 and 2001, principally ranged from 0.67% to 1.38% and 0.91% to 1.50%, respectively.

Long-term debt at March 31, 2000 and 2001, is summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2000	2001	2001
Guaranteed Bonds issued in 1991 with interest rate of 6.50% due 2001	¥ 47,010	¥ —	$ —
Nonguaranteed Bonds issued in 1992 to 2001 with interest rates ranging from 1.70% to 5.55% due 2004 to 2021	639,870	729,870	5,982
Secured Loans due 2001 to 2016 principally from banks and insurance companies with interest rates mainly ranging from 2.06% to 4.70%	28,958	24,783	203
Unsecured Loans due 2001 to 2021 principally from banks and insurance companies with interest rates mainly ranging from 1.74% to 3.75%	1,515,888	1,464,870	12,007
7.25% Euro U.S. dollar bonds due 2006	87,938	87,960	721
	2,319,664	2,307,483	18,913
Less current portion	201,013	238,072	1,951
	¥2,118,651	¥2,069,411	$16,962

Issue and maturity years above are expressed in calendar years (ending December 31 in the same year).

All debt referred to in the above table as "guaranteed," is guaranteed by the Government of Japan. All of the Company's bonds are general mortgage bonds; that is, the bondholders of the Company have a preferential right to receive payment of principal and interest in accordance with the provisions of the Law for Passenger Railway Companies and Japan Freight Railway Company.

The 7.25% Euro U.S. dollar bonds in the amount of $800 million were issued in October 1996. These bonds have been hedged by a swap contract with a bank.

The annual maturities of long-term debt at March 31, 2001, were as follows:

Year ending March 31	Millions of Yen	Millions of U.S. Dollars
2002	¥238,072	$1,951
2003	350,426	2,872
2004	314,037	2,574
2005	227,771	1,867
2006	180,563	1,480
2007 and thereafter	996,614	8,169

11. Long-Term Liabilities Incurred for Purchase of Railway Facilities

In October 1991, the Company purchased the Tohoku and Joetsu Shinkansen facilities from Shinkansen Holding Corporation for a total purchase price of ¥3,106,970 million payable in equal semiannual installments through the years ending September 2051. In March 1997, the liability of ¥27,946 million payable in equal semiannual installments through the years ending March 2022 to Japan Railway Construction Public Corporation was incurred with respect to the acquisition of the Akita hybrid Shinkansen facilities.

The long-term liabilities incurred for purchase of railway facilities outstanding at March 31, 2000 and 2001, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2000	2001	2001
The long-term liability incurred for purchase of the Tohoku and Joetsu Shinkansen facilities:			
Payable semiannually including interest at a rate currently approximating 4.89% through 2017	¥1,589,156	¥1,502,249	$12,314
Payable semiannually including interest at 6.35% through 2017	524,395	506,536	4,152
Payable semiannually including interest at 6.55% through 2051	360,852	359,950	2,950
	2,474,403	2,368,735	19,416
The long-term liability incurred for purchase of the Akita hybrid Shinkansen facilities:			
Payable semiannually at an average rate currently approximating 0.04% through 2022	24,620	23,506	192
	2,499,023	2,392,241	19,608
Less current portion:			
The Tohoku and Joetsu Shinkansen purchase liability	105,735	108,950	893
The Akita hybrid Shinkansen purchase liability	1,116	1,108	9
	106,851	110,058	902
	¥2,392,172	¥2,282,183	$18,706

Maturity years above are expressed in calendar years (ending December 31 in the same year).

The annual payments of long-term liabilities incurred for purchase of railway facilities at March 31, 2001, were as follows:

Year ending March 31	Millions of Yen	Millions of U.S. Dollars
2002	¥ 110,058	$ 902
2003	88,342	724
2004	92,925	762
2005	97,756	801
2006	102,851	843
2007 and thereafter	1,900,309	15,576

12. Consumption Tax

The Japanese consumption tax is an indirect tax levied at the rate of 5%. Accrued consumption tax represents the difference between consumption tax collected from customers and consumption tax paid on purchases.

13. Income Taxes

Due to a revision in Regulation for Consolidated Financial Statements, the Companies have adopted tax effect accounting beginning with the year ended March 31, 2000. As a result of this revision, net income was ¥25,313 million and retained earnings at March 31, 2000 was ¥46,959 million more than if the Companies had not adopted tax effect accounting.

The major components of deferred income taxes and deferred tax liabilities at March 31, 2000 and 2001, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2000	2001	2001
Deferred income taxes:			
Accrued severance and retirement benefits	¥ 45,792	¥ 78,119	$ 640
Reserves for bonuses	10,519	15,885	130
Excess depreciation and amortization of fixed assets	2,293	5,513	45
Accrued enterprise tax	5,737	5,034	41
Loss carry forwards for tax purposes	4,717	4,486	37
Other	8,860	15,664	129
	77,918	124,701	1,022
Less valuation allowance	(5,239)	(5,090)	(42)
Less deferred tax liabilities	(21,357)	(26,536)	(217)
	¥ 51,322	¥ 93,075	$ 763
Deferred tax liabilities:			
Tax deferment for gain on transfers of certain fixed assets	¥ 14,408	¥18,470	$151
Valuation for assets and liabilities of consolidated subsidiaries	6,221	5,380	44
Other	4,689	5,367	44
	25,318	29,217	239
Less deferred income taxes	(21,357)	(26,536)	(217)
	¥ 3,961	¥ 2,681	$ 22

Income taxes consist of corporation, enterprise and inhabitants taxes. The aggregate standard effective rate of taxes on consolidated income before income taxes was approximately 47% for the year ended March 31, 1999 and approximately 42% for the years ended March 31, 2000 and 2001, due to a reduction in the rates for income taxes applicable from the year ended March 31, 1999. After adopting tax effect accounting, the actual effective income tax rate was approximately 43% for the year ended March 31, 2001.

14. Accrued Severance and Retirement Benefits and Severance and Retirement Benefit Expenses

As mentioned in Note 2 above, beginning with the year ended March 31, 2001, the Companies adopted the new Accounting Standard for Retirement Benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consisted of the following:

	Millions of Yen	Millions of U.S. Dollars
	2001	2001
Projected benefit obligation	¥(937,319)	$(7,683)
Plan assets	7,390	61
Unfunded projected benefit obligation	(929,929)	(7,622)
Unrecognized transition obligation	448,123	3,673
Unrecognized actuarial differences	(1,052)	(9)
Book value (net)	(482,858)	(3,958)
Prepaid pension expense	(390)	(3)
Accrued severance and retirement benefits	¥(483,248)	$(3,961)

Severance and retirement benefit expenses included in the consolidated statement of income for the year ended March 31, 2001 consisted of the following:

	Millions of Yen	Millions of U.S. Dollars
	2001	2001
Service costs	¥ 37,300	$306
Interest cost	27,999	229
Expected return on plan assets	(119)	(1)
Amortization of transition obligation	52,278	429
Severance and retirement benefit expenses	¥117,458	$963

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. The discount rates used by the Companies are 3.0%. The rates of expected return on plan assets used by the Companies are mainly 3.0%.

15. Contingent Liabilities

The Company is contingently liable for (1) the in-substance defeasance of Japanese government guaranteed railway bonds issued by the Company, which were assigned to certain banks under the debt assumption agreements and (2) the original debt in connection with the sale of the 6.625% Euro U.S. dollar bonds for which the Company entered into a long-term cross currency and interest rate swap agreement with a bank. The outstanding amounts contingently liable under such debt assumption agreements and cross currency swap agreement at March 31, 2001 were ¥62,048 million ($509 million) and $600 million, respectively.

16. Shareholders' Equity

Under the Commercial Code of Japan, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal reserve until the reserve equals to 25% of common stock. The reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors of the Company. The legal reserve is included in the retained earnings.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company and in accordance with the Commercial Code of Japan.

17. Segment Information

The Companies' primary business activities include (1) transportation, (2) merchandise sales, (3) real estate leasing and (4) other services. A summary of operating revenues and costs and expenses were as follows:

	Millions of Yen					
	Transportation	Merchandise sales	Real estate leasing	Other services	Elimination and/or corporate	Consolidated
1999:						
Operating revenues						
Outside customers	¥1,808,925	¥356,260	¥158,515	¥159,894	¥ —	¥2,483,594
Inside group	48,526	582	6,489	9,902	(65,499)	—
	1,857,451	356,842	165,004	169,796	(65,499)	2,483,594
Costs and expenses	1,563,356	353,253	134,572	163,746	(65,805)	2,149,122
Operating income	¥ 294,095	¥ 3,589	¥ 30,432	¥ 6,050	¥ 306	¥ 334,472
Identifiable assets	¥5,865,040	¥131,055	¥777,496	¥285,755	¥227,687	¥7,287,033
Depreciation	271,250	7,251	26,766	14,420	—	319,687
Capital investments	254,088	15,194	29,336	13,908	—	312,526
2000:						
Operating revenues						
Outside customers	¥1,799,051	¥379,213	¥143,432	¥181,213	¥ —	¥2,502,909
Inside group	64,925	69,050	11,707	158,220	(303,902)	—
	1,863,976	448,263	155,139	339,433	(303,902)	2,502,909
Costs and expenses	1,569,198	442,480	122,590	329,867	(303,183)	2,160,952
Operating income	¥ 294,778	¥ 5,783	¥ 32,549	¥ 9,566	¥ (719)	¥ 341,957
Identifiable assets	¥5,782,101	¥165,416	¥778,740	¥340,606	¥241,528	¥7,308,391
Depreciation	265,451	8,552	27,090	28,490	—	329,583
Capital investments	279,955	19,542	25,435	26,812	—	351,744

	Millions of Yen					
	Transportation	Merchandise sales	Real estate leasing	Other services	Elimination and/or corporate	Consolidated
2001:						
Operating revenues						
Outside customers	¥1,805,663	¥386,033	¥152,438	¥201,907	¥ —	¥2,546,041
Inside group	68,041	62,998	11,116	169,250	(311,405)	—
	1,873,704	449,031	163,554	371,157	(311,405)	2,546,041
Costs and expenses	1,609,731	440,052	128,110	355,168	(310,771)	2,222,290
Operating income	¥ 263,973	¥ 8,979	¥ 35,444	¥ 15,989	¥ (634)	¥ 323,751
Identifiable assets	¥5,666,824	¥168,151	¥783,973	¥356,862	¥271,279	¥7,247,089
Depreciation	263,763	9,000	28,539	28,349	—	329,651
Capital investments	262,794	11,056	27,271	43,617	—	344,738

	Millions of U.S. Dollars					
	Transportation	Merchandise sales	Real estate leasing	Other services	Elimination and/or corporate	Consolidated
2001:						
Operating revenues						
Outside customers	$14,801	$3,164	$1,249	$1,655	$ —	$20,869
Inside group	557	517	92	1,387	(2,553)	—
	15,358	3,681	1,341	3,042	(2,553)	20,869
Costs and expenses	13,194	3,607	1,050	2,911	(2,547)	18,215
Operating income	$ 2,164	$ 74	$ 291	$ 131	$ (6)	$ 2,654
Identifiable assets	$46,449	$1,378	$6,426	$2,925	$2,224	$59,402
Depreciation	2,162	74	234	232	—	2,702
Capital investments	2,154	91	224	357	—	2,826

Capital investments include a portion contributed mainly by national and local governments. Assets in the corporate column mainly comprise current and non-current securities of the Company.

Due to an increase in sales of consolidated subsidiaries to external customers, certain transactions that had been eliminated as transactions within the transportation segment in previous years are, beginning with the year ended March 31, 2000, treated as inside group transactions independent of the transportation segment for the purpose of more accurately reflecting the segments to which each consolidated subsidiary belongs.

If segment results for the year ended March 31, 1999 had been reported on this basis, inside group transactions would have been ¥63,881 million for transportation, ¥66,132 million for merchandise sales, ¥9,773 million for real estate leasing and ¥113,692 million for other services. There would have been no change in operating income.

Furthermore, identifiable assets would have been ¥5,855,242 million for transportation, ¥158,376 million for merchandise sales, ¥773,542 million for real estate leasing and ¥313,067 million for other services.

Each of the Companies' business activities consists mainly of the following:

Transportation	: Passenger railway, Bus services;
Merchandise sales	: Food and drink sales, Wholesale and retail sales;
Real estate leasing	: Lease of real estate (mainly shopping centers); and
Other services	: Hotel operations, Advertising and publicity, Truck delivery services, Information processing, Cleaning services and Others

As referred to in Note 2, the Accounting Standard for Retirement Benefits in Japan has been operative beginning with the year ended March 31, 2001. As a result, in the transportation segment, costs and expenses were ¥48,120 million ($394 million) more than if the previous accounting methods had been applied, reducing operating income by the same amount. In the merchandise sales segment, costs and expenses decreased by ¥269 million ($2 million) and operating income increased by the same amount. In the real estate leasing segment, costs and expenses increased by ¥226 million ($2 million) and operating income decreased by the same amount. In the other services segment, costs and expenses increased by ¥248 million ($2 million) and operating income decreased by the same amount.

Geographic segment information is not shown since the Company has no overseas consolidated subsidiaries. Information for overseas sales is not shown due to there being no overseas sales.

18. Information Regarding Certain Leases

Finance leases other than those which transfer ownership to lessees are accounted for in the same manner as operating leases. Under such finance leases, lease payments, which are charged to income for the years ended March 31, 2000 and 2001, amounted to ¥15,983 million and ¥14,620 million ($120 million), respectively. Lease income which are credited to income for the years ended March 31, 2000 and 2001 were ¥1,029 million and ¥1,365 million ($11 million), respectively.

Future lease payments and receipts, both inclusive of interest, at March 31, 2001 were ¥54,111 million ($444 million), including due in one year of ¥13,492 million ($111 million) and ¥6,597 million ($54 million), including due in one year of ¥2,088 million ($17 million), respectively.

19. Information for Derivative Transactions

The Companies deal with forward exchange, currency swap and interest rate swap transactions to hedge the risks resulting from future changes in foreign exchange rates and interest rates (market risk) with regard to bonds, loans and other obligations.

The Companies believe there is extremely low risk of default by derivative transaction counterparties as all such transactions are with financial institutions having sound reputations.

Contracts of derivative transactions are executed only after prudent consideration by the finance section of each of the Companies and upon resolution of its Board of Directors or other appropriate internal approval process.

20. Subsequent Event

At the June 2001 annual meeting, the shareholders of the Company approved (1) the payment of a year-end cash dividend of ¥2,500 ($20) per share, aggregating ¥10,000 million ($82 million), and (2) the payment of bonuses to directors and corporate auditors of ¥175 million ($1 million).

ARTHUR ANDERSEN

Asahi & Co

A Member Firm of Arthur Andersen

Report of Independent Public Accountants

To the Board of Directors of East Japan Railway Company:

We have audited the accompanying consolidated balance sheets of East Japan Railway Company (a Japanese Corporation) and subsidiaries as of March 31, 2000 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2001, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of East Japan Railway Company and subsidiaries as of March 31, 2000 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in Japan consistently applied during the periods, except as noted in the following paragraph.

As explained in Note 2, East Japan Railway Company and subsidiaries prospectively adopted new Japanese accounting standards for (a) financial instruments, severance and retirement benefits and foreign currency transaction in the year ended March 31, 2001 and (b) consolidation and equity method accounting, income taxes and research and development costs in the year ended March 31, 2000. Also, East Japan Railway Company and subsidiaries changed the method of presenting intersegment transactions, effective April 1, 1999, as referred to in Note 17, with which we concur.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 2.

Asahi & Co.

Tokyo, Japan
June 27, 2001

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position, results of operations and cash flows. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

CONSOLIDATED SUBSIDIARIES AND EQUITY METHOD AFFILIATED COMPANIES

(As of March 31, 2001)

Consolidated Subsidiaries

Company Name	Capitalization (Millions of Yen)	Voting Right Percentage	Main Business Activities
1. JR Bus Kanto Co.,Ltd.	¥4,000	100.0%	Bus services
2. JR Bus Tohoku Co.,Ltd.	2,350	100.0	Bus services
3. Higashinihon Kiosk Co., Ltd.	3,500	90.0	Retail sales
4. JR East Department Store Co., Ltd.	1,000	70.0	Retail sales
5. JR Takasaki Trading Co., Ltd.	490	100.0	Retail sales and wholesale
6. Tohoku Sogo Service Co., Ltd.	490	100.0	Retail sales
7. JR East Convenience Stores Co., Ltd.	400	100.0	Retail sales
8. Juster Co., Ltd.	400	100.0	Retail sales
9. Shinano Enterprise Co., Ltd.	400	100.0	Retail sales
10. Tokki Co., Ltd.	400	100.0	Retail sales
11. JR Kanagawa Planning & Development Co., Ltd.	370	100.0	Retail sales
12. Keiyo Planning & Development Co., Ltd.	370	100.0	Retail sales
13. Mito Service Development Co., Ltd.	360	100.0	Retail sales
14. JR Kaiji Planning & Development Co., Ltd.	350	100.0	Retail sales
15. JR Utsunomiya Planning & Development Co., Ltd.	320	100.0	Retail sales
16. JR Atlis Co., Ltd.	310	100.0	Retail sales
17. Nippon Restaurant Enterprise Co., Ltd.	730	91.3	Restaurant business and retail sales
18. East Japan Restaurant Co., Ltd. (Note 3)	721	99.9	Restaurant business
19. East Japan Railway Trading Co., Ltd.	560	100.0	Wholesale
20. Lumine Co., Ltd.	2,375	85.8	Real estate leasing
21. Shinjuku Station Building Co., Ltd.	1,943	66.0	Real estate leasing
22. JR East Urban Development Corporation	1,450	100.0	Real estate leasing and retail sales
23. Utsunomiya Station Development Co., Ltd.	1,230	98.5	Real estate leasing
24. Kokubunji Terminal Building Co.,Ltd.	1,000	84.5	Real estate leasing
25. Hachioji Terminal Building Co.,Ltd.	1,000	75.0	Real estate leasing
26. Omori Primo Co., Ltd. (Note 4)	1,000	65.0	Real estate leasing
27. Oyama Station Development Co., Ltd.	950	97.1	Real estate leasing
28. Lumine Ogikubo Co., Ltd.	600	80.0	Real estate leasing
29. Kawasaki Station Building Co.,Ltd.	600	76.4	Real estate leasing
30. Tsuchiura Station Development Co., Ltd.	500	75.0	Real estate leasing
31. Mito Station Development Co., Ltd.	500	73.0	Real estate leasing
32. Kameido Station Building Co., Ltd.	500	51.9	Real estate leasing
33. Box Hill Co., Ltd.	450	73.3	Real estate leasing
34. Nagano Station Building Co., Ltd.	450	70.0	Real estate leasing
35. Aomori Station Development Co., Ltd.	400	81.3	Real estate leasing
36. Lumine Chigasaki Co., Ltd.	400	78.8	Real estate leasing
37. Kofu Station Building Co., Ltd.	400	75.0	Real estate leasing
38. Fukushima Station Development Co., Ltd.	350	78.6	Real estate leasing
39. Kumagaya Station Development Co., Ltd.	350	76.9	Real estate leasing
40. Tetsudo Kaikan Co., Ltd.	340	63.1	Real estate leasing
41. The EKIBIRU Development Co. TOKYO	300	100.0	Real estate leasing

Company Name	Capitalization (Millions of Yen)	Voting Right Percentage	Main Business Activities
42. Matsumoto Station Building Co., Ltd.	¥ 300	91.7%	Real estate leasing
43. Koriyama Station Building Co., Ltd.	250	78.0	Real estate leasing
44. Echigo Station Development Co., Ltd.	208	78.8	Real estate leasing
45. Hirosaki Station Building Co., Ltd.	200	72.5	Real estate leasing
46. Hiratsuka Station Building Co., Ltd.	200	51.0	Real estate leasing
47. Yokohama Station Building Co., Ltd.	200	51.0	Real estate leasing
48. Kinshicho Station Building Co., Ltd.	160	56.0	Real estate leasing
49. Sobu Station Development Co., Ltd.	150	84.0	Real estate leasing
50. Chiba Station Building Co., Ltd.	150	62.9	Real estate leasing
51. Kamata Station Building Co., Ltd.	140	85.0	Real estate leasing
52. Kichijoji Lonlon Co., Ltd.	130	80.0	Real estate leasing
53. Tsurumi Station Building Co., Ltd.	100	56.5	Real estate leasing
54. Iwaki Chuo Station Building Co., Ltd.	100	52.0	Real estate leasing
55. Meguro Station Building Co., Ltd.	82	80.0	Real estate leasing
56. Akita Station Department Store Co., Ltd. (Note 2)	80	51.4	Real estate leasing
57. Abound Co., Ltd.	30	65.3	Real estate leasing
58. Ikebukuro Terminal Building Co., Ltd.	6,000	54.0	Hotel operations and real estate leasing
59. Yamagata Terminal Building Co., Ltd.	5,000	96.0	Hotel operations
60. Hotel Metropolitan Nagano Co., Ltd.	3,080	100.0	Hotel operations
61. Hotel Edmont Co., Ltd.	2,400	63.8	Hotel operations
62. Sendai Terminal Building Co., Ltd.	1,800	71.9	Hotel operations and real estate leasing
63. Tohoku Resort System Co., Ltd.	1,200	80.4	Hotel operations
64. Akita Terminal Building Co., Ltd.	1,000	78.0	Hotel operations
65. Morioka Terminal Building Co., Ltd.	900	75.6	Hotel operations
66. Takasaki Terminal Building Co., Ltd.	780	71.2	Hotel operations
67. Nippon Hotel Co., Ltd.	150	56.6	Hotel operations
68. East Japan Marketing & Communications, Inc.	250	100.0	Advertising and publicity
69. Tokyo Media Services Co., Ltd.	104	100.0	Advertising and publicity
70. JR East Housing Development Co., Ltd.	200	73.8	Real estate sales and management
71. JR East Japan Information Systems Company	500	100.0	Information processing
72. JR East Management Service Co., Ltd.	80	100.0	Information services
73. East Japan Eco Access Co., Ltd.	120	100.0	Cleaning services
74. Railway Servicing Co., Ltd.	38	38.6 (61.4)	Cleaning services
75. Kanto Railway Servicing Co., Ltd.	38	35.6 (64.4)	Cleaning services
76. East Japan Railway Servicing Co., Ltd.	38	29.0 (71.0)	Cleaning services
77. JR Technoservice Sendai Co., Ltd. (Note 5)	25	100.0	Cleaning services
78. Niigata Railway Servicing Co., Ltd.	17	85.2	Cleaning services
79. East Japan Amenitec Co., Ltd. (Note 6)	13	100.0	Cleaning services

Company Name	Capitalization (Millions of Yen)	Voting Right Percentage	Main Business Activities
80. Chiba Railway Servicing Co., Ltd.	¥ 12	25.3% (74.7)	Cleaning services
81. Akita Clean Servicing Co., Ltd. (Note 7)	10	100.0	Cleaning services
82. Nagano Railway Servicing Co., Ltd.	10	100.0	Cleaning services
83. Takasaki Railway Servicing Co., Ltd.	10	45.8 (54.2)	Cleaning services
84. Mito Railway Servicing Co., Ltd.	10	25.3 (74.7)	Cleaning services
85. East Japan Transport Technology Co., Ltd. (Notes 2, 8)	80	51.0	Machinery and rolling stock maintenance
86. Tohoku Kotsu Kikai Co., Ltd. (Note 2)	72	50.7	Machinery and rolling stock maintenance
87. View World Co., Ltd.	450	51.0	Travel agency services
88. JR East Facility Management Co., Ltd.	50	100.0	Building maintenance
89. JR East Logistics Co.,Ltd.	100	100.0	Truck delivery services
90. JR East Rental & Lease Co., Ltd.	165	81.5	Car leasing
91. Union Construction Co., Ltd.	120	60.0	Construction
92. JR East Sports Co., Ltd.	400	100.0	Athletic club operations
93. JR East Mechatronics Co., Ltd.	100	100.0	Maintenance services
94. JR East Consultants Company	50	100.0	Consulting
95. JR East Design Corporation	50	100.0	Consulting
96. Gala Yuzawa Co., Ltd.	300	92.7	Ski resort operations

JR East Car Sales Corporation is not shown on this list as it was dissolved on August 21, 2000.

Equity Method Affiliated Companies

Company Name	Capitalization (Millions of Yen)	Voting Right Percentage	Main Business Activities
1. J-Phone East Co., Ltd. (Note 9)	¥178,676	5.7% (22.8)	Telecommunication services
2. Japan Telecom Co., Ltd.	177,251	15.2	Telecommunication services

Notes: 1. Percentages in parentheses represent shares held by other parties that vote along with the interests of JR East and do not include the percentage shown immediately above.
2. In the year ended March 31, 2001, these subsidiaries were newly consolidated.
3. East Japan Restaurant Co., Ltd. merged with J.B. Co., Ltd. in April 1, 2001, and changed its name to JR East Food Business Co., Ltd..
4. Omori Primo Co., Ltd. changed its name from Omori Terminal Building Co., Ltd. on August 1, 2000.
5. JR Technoservice Sendai Co., Ltd. changed its name from Tohoku Railway Servicing Co., Ltd. when Tohoku Railway Servicing Co., Ltd., Tohoku Shinkansen Servicing Co., Ltd. and East Japan Comfotec Co., Ltd. were merged on April 1, 2000. Tohoku Shinkansen Servicing Co., Ltd. and East Japan Comfotec Co., Ltd. were dissolved after the merger.
6. East Japan Amenitec Co., Ltd. changed its name from Kenyusha Co., Ltd. on April 1, 2000.
7. Akita Clean Servicing Co., Ltd. changed its name from Akita Railway Servicing Co., Ltd. on April 1, 2000.
8. East Japan Transport Technology Co., Ltd. was an equity method affiliated company newly consolidated in the year ended March 31, 2001. The company changed its name from Japan Transport Machinery Co., Ltd. on September 1, 2000.
9. J-Phone East Co., Ltd. changed its name from J-Phone Tokyo Co., Ltd. when J-Phone Tokyo Co., Ltd. and J-Phone Tohoku Co., Ltd. along with J-Phone Hokkaido Co., Ltd. were merged on October 1, 2000. J-Phone Tohoku Co., Ltd. was dissolved after the merger.

NONCONSOLIDATED FINANCIAL REVIEW

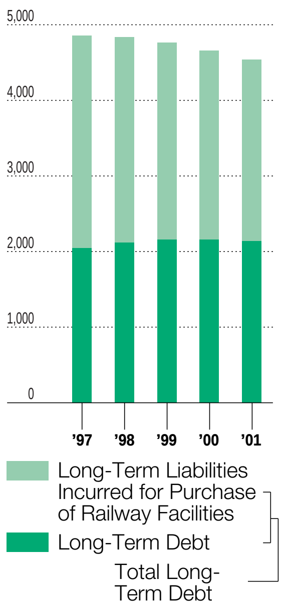
Overview

During the year ended March 31, 2001 (fiscal 2001), the Japanese economy experienced a trend of slow improvement with capital investment in the private sector recovering for the background of improvement of corporate profits. However, personal consumption, comprising the majority of private-sector demand remained subdued, without significant improvement in the employment and income environment. Further, the economy started to show signs of weakness again towards the end of the term, with exports and industrial production declining, affected by the overseas economic slowdown.

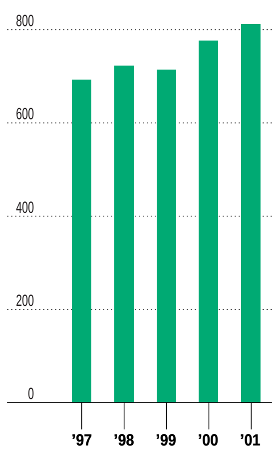
JR East carried out various countermeasures to increase managerial efficiency by implementing a thorough review of all classes of expenses, as well as making efforts to increase revenues by effective use of the five-route Shinkansen network, in order to overcome such a severe economic situation.

Operating revenues increased 0.7% to ¥1,913.5 billion ($15,684 million), supported by an increase in non-commuter revenues. Operating income decreased 8.7% to ¥288.8 billion ($2,367 million) because of a large increase in operating expenses due to the amortization of a shortfall in obligations for severance and retirement benefits. Net income decreased 6.8% to ¥56.3 billion ($461 million) because operating expenses increased in spite of effort to reduce interest expenses by continuous reduction in total long-term debt. The shareholders' equity ratio rose to 12.5% at the end of fiscal 2001 compared with 11.7% at the end of fiscal 2000.

Total Long-Term Debt
(Billions of Yen)



Shareholders' Equity
(Billions of Yen)



Fiscal 2001 Results

Operating Revenues

Revenues from railway operations increased 0.5% to ¥1,852.9 billion ($15,188 million), and accounted for 96.8% of total operating revenues.

Shinkansen network revenues increased 1.2% to ¥463.2 billion ($3,796 million). These results benefited mainly from the December 1999 commencement of service on the extension of Yamagata hybrid Shinkansen to Shinjo, growth in commuter pass revenues and the expansion of the number of reserved seats. Revenues from commuter passes increased 4.4% to ¥20.3 billion ($166 million) and non-commuter revenues increased 1.1% to ¥442.9 billion ($3,630 million). The volume of transportation increased 0.8% to 17.7 billion passenger-kilometers.

Tokyo metropolitan area network revenues increased 0.1% to ¥844.0 billion ($6,918 million). Although commuter pass revenues were lower because of a decline in the number of students and other factors, non-commuter revenues from travel within a 100-kilometer radius of the departure station grew. Revenues from commuter passes decreased 0.4% to ¥348.6 billion ($2,858 million). Non-commuter revenues increased 0.4% to ¥495.3 billion ($4,060 million). Passenger-kilometers decreased 0.8% to 76.5 billion.

Intercity and regional networks revenues decreased 0.2% to ¥373.1 billion ($3,058 million) because of a decline of passenger volume. Commuter pass revenues decreased 0.2% to ¥120.2 billion ($985 million) and non-commuter revenues decreased 0.2% to ¥252.9 billion ($2,073 million). Passenger-kilometers decreased 0.7% to 31.2 billion.

Operating Results and Financial Position Summary

	Millions of Yen (except for per share data)				
	1997	1998	1999	2000	2001
For the Year:					
Operating Revenues	¥1,967,935	¥1,945,886	¥1,909,379	¥1,899,905	¥1,913,453
Operating Income	396,222	348,204	312,693	316,371	288,785
Net Income	57,778	50,231	11,886	60,340	56,256
Depreciation	238,103	243,076	277,007	271,298	270,543
Net Income and Depreciation	295,881	293,307	288,893	331,638	326,799
Net Income per Share of Common Stock (yen)	14,445	12,558	2,972	15,085	14,064
Net Income and Depreciation per Share of Common Stock (yen)	73,970	73,327	72,223	82,910	81,700
At Year-End:					
Total Assets	¥6,757,431	¥6,716,093	¥6,634,312	¥6,624,789	¥6,515,098
Long-Term Debt	2,045,490	2,119,481	2,156,673	2,158,659	2,145,276
Long-Term Liabilities Incurred for Purchase of Railway Facilities *	2,812,547	2,713,737	2,610,966	2,499,023	2,392,241
Total Long-Term Debt **	4,858,037	4,833,218	4,767,639	4,657,682	4,537,517
Total Shareholders' Equity	692,527	722,554	714,255	776,114	812,184

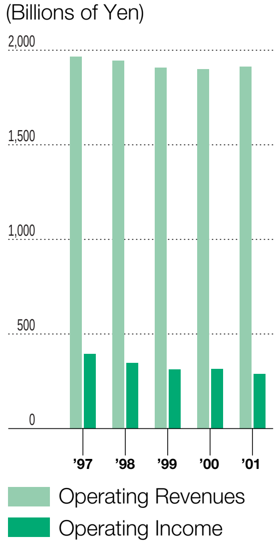
	Percent				
Ratios:					
Net income as a percentage of revenues	2.9%	2.6%	0.6%	3.2%	2.9%
Return on average equity	8.6	7.1	1.7	8.1	7.1
Ratio of operating income to average assets	5.9	5.2	4.7	4.8	4.4
Equity ratio	10.2	10.8	10.8	11.7	12.5
Debt-to-equity ratio	875.8	829.5	828.8	753.6	702.2

Notes: 1. Net Income decreased significantly in fiscal 1999, mainly because "cash charges for additional obligation related to transfer to Welfare Pension" (see page 68) was accounted for in other expenses.
2. Tax effect accounting was adopted beginning with fiscal 2000.
3. Accounting for retirement benefits was adopted beginning with fiscal 2001.
4. Capital Expenditures funded by JR East were ¥277,308 million in fiscal 1997, ¥218,959 million in fiscal 1998, ¥214,697 million in fiscal 1999, ¥223,601 million in fiscal 2000 and ¥222,356 million ($1,823 million) in fiscal 2001.

* Long-term liabilities incurred for purchase of the Tohoku and Joetsu Shinkansen facilities and the Akita hybrid Shinkansen facilities

** The weighted average interest rate on total long-term debt was 5.10% at the end of fiscal 1997, 4.84% at the end of fiscal 1998, 4.62% at the end of fiscal 1999, 4.47% at the end of fiscal 2000 and 4.25% at the end of fiscal 2001.

Operating Revenues and Operating Income
(Billions of Yen)

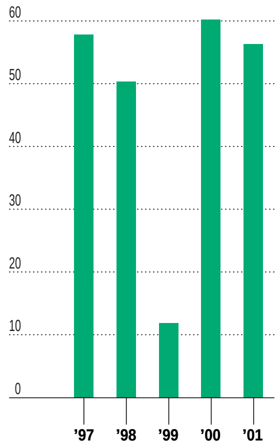


Revenues from other railway business activities are derived from fee-based operations such as advertising, retail businesses within train stations, travel agency services and track access charges paid by Japan Freight Railway Company (JR Freight) for the use of JR East lines. These revenues increased 2.1% to ¥172.7 billion ($1,416 million) because of an increase in fees for travel agency services and other factors.

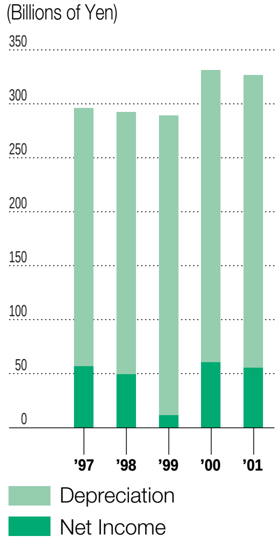
Revenues from other operations are chiefly generated by real estate business, credit cards, and directly managed stores and restaurants. This figure increased 8.2% to ¥60.5 billion ($496 million) and accounted for 3.2% of total operating revenues. The increase was due to revenues from housing development and sales, credit cards and other factors.

As a result of the above factors, total operating revenues increased 0.7% to ¥1,913.5 billion ($15,684 million).

Net Income
(Billions of Yen)



Net Income and Depreciation
(Billions of Yen)



Operating Expenses

Railway operating expenses increased 2.6% to ¥1,590.0 billion ($13,033 million) because personnel expenses increased due to amortization of the shortfall in obligations for severance and retirement benefits. The Nagano Shinkansen usage fees amounted to ¥19.2 billion ($157 million) (see page 29).

Operating expenses in other operations increased 3.9% to ¥34.7 billion ($284 million). This was due primarily to the increase in cost of sales resulting from favorable housing development and sales.

As a result, total operating expenses increased 2.6% to ¥1,624.7 billion ($13,317 million).

Personnel expenses increased 6.3% to ¥661.1 billion ($5,419 million), accounting for 40.7% of operating expenses and 34.5% of operating revenues. This was due to amortizing the shortfall in obligations for severance and retirement benefits.

Operating Income

As a result, operating income decreased 8.7% to ¥288.8 billion ($2,367 million). The ratio of this figure to total operating revenues was 15.1%.

Other Income (Expenses)

Total interest expenses decreased 6.7% to ¥202.1 billion ($1,657 million). The weighted average interest on long-term debt as of March 31, 2001 was 4.25%, compared with 4.47% one year earlier.

Interest expense on short- and long-term debt, excluding long-term liabilities incurred for purchase of railway facilities, decreased 10.0% to ¥68.5 billion ($562 million) as a result of the ongoing reduction in long-term debt and the refinancing of debt at lower rates, reflecting continued low interest rates in Japan.

Interest expense incurred for purchase of railway facilities decreased 5.0% to ¥133.6 billion ($1,095 million). This decrease was due to the inherent increase in the proportion of each installment amount constituted by principal, since the payment in respect of the purchase price is made in equal semiannual installments, as well as a decrease in the interest proportion of such installments resulting from declining variable interest rates applicable to a substantial portion of long-term liabilities incurred for purchase of railway facilities (see page 72).

Interest and dividend income increased 16.6% to ¥2.9 billion ($24 million). The other, net item contributed income of ¥8.0 billion ($66 million), up from income of ¥2.3 billion because of revenue from investment in leases and others.

As a result, other expenses decreased 9.8% to ¥191.2 billion ($1,567 million).

Income before Income Taxes and Net Income

As a result, income before income taxes decreased 6.6% to ¥97.6 billion ($800 million). Net income decreased 6.8% to ¥56.3 billion ($461 million).

NONCONSOLIDATED BALANCE SHEETS

EAST JAPAN RAILWAY COMPANY
March 31, 2000 and 2001

	Millions of Yen		Millions of U.S. Dollars (Note 2)
	2000	2001	2001
Assets			
Current Assets:			
Cash and cash equivalents (Note 3)	¥ 160,162	¥ 162,739	$ 1,334
Receivables:			
Accounts receivable-trade	33,272	37,900	311
Subsidiaries and affiliated companies	12,270	15,299	125
Other	60,889	74,293	609
Allowance for doubtful accounts (Note 2)	(191)	(722)	(6)
	106,240	126,770	1,039
Inventories (Notes 2 and 4)	8,799	9,639	79
Real estate for sale (Notes 2 and 5)	39,437	28,800	236
Deferred income taxes (Note 12)	18,767	23,943	196
Other current assets	16,951	15,625	128
Total current assets	350,356	367,516	3,012
Investments:			
Subsidiaries and affiliated companies (Notes 6 and 7)	152,695	157,328	1,290
Other (Note 7)	138,272	154,407	1,265
	290,967	311,735	2,555
Property, Plant and Equipment (Notes 2 and 8):			
Railway	8,756,086	8,777,936	71,950
Other operations	1,233,171	1,249,742	10,244
Construction in progress	148,293	103,806	851
	10,137,550	10,131,484	83,045
Less accumulated depreciation	4,261,149	4,411,893	36,163
Net property, plant and equipment	5,876,401	5,719,591	46,882
Other Assets:			
Long-term deferred income taxes (Note 12)	25,193	57,932	475
Other	81,872	58,324	478
	107,065	116,256	953
	¥ 6,624,789	¥ 6,515,098	$53,402

See accompanying notes.

	Millions of Yen		Millions of U.S. Dollars (Note 2)
	2000	2001	2001
Liabilities and Shareholders' Equity			
Current Liabilities:			
Current portion of long-term debt (Note 9)	¥ 164,373	¥ 201,340	$ 1,650
Current portion of long-term liabilities incurred for purchase of railway facilities (Note 10)	106,851	110,058	902
Prepaid railway fares received	109,077	105,065	861
Payables:			
Subsidiaries and affiliated companies	87,064	79,163	649
Other	337,371	284,604	2,333
	424,435	363,767	2,982
Accrued expenses	98,696	93,618	767
Accrued consumption tax (Note 11)	8,732	11,848	97
Accrued income taxes (Note 12)	56,724	45,828	376
Other current liabilities	13,608	28,191	232
Total current liabilities	982,496	959,715	7,867
Long-Term Debt (Note 9)	1,994,286	1,943,936	15,934
Long-Term Liabilities Incurred for Purchase of Railway Facilities (Note 10)	2,392,172	2,282,183	18,706
Accrued Severance and Retirement Benefits (Note 2)	417,499	457,862	3,753
Other Long-Term Liabilities	62,222	59,218	485
Contingent Liabilities (Note 13)			
Shareholders' Equity (Notes 14 and 17):			
Common stock, ¥50,000 par value:			
Authorized 16,000,000 shares;			
Issued and outstanding 4,000,000 shares	200,000	200,000	1,639
Additional paid-in capital	96,600	96,600	792
Legal reserve	19,138	21,156	173
Retained earnings	460,376	494,428	4,053
Total shareholders' equity	776,114	812,184	6,657
	¥6,624,789	¥6,515,098	$53,402

NONCONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

EAST JAPAN RAILWAY COMPANY
Years ended March 31, 1999, 2000 and 2001

	Millions of Yen			Millions of U.S. Dollars (Note 2)
	1999	2000	2001	2001
Operating Revenues:				
Railway	¥1,852,849	¥1,843,936	¥1,852,913	$15,188
Other operations	56,530	55,969	60,540	496
	1,909,379	1,899,905	1,913,453	15,684
Operating Expenses:				
Railway	1,559,497	1,550,132	1,589,975	13,033
Other operations	37,189	33,402	34,693	284
	1,596,686	1,583,534	1,624,668	13,317
Operating Income	312,693	316,371	288,785	2,367
Other Income (Expenses):				
Interest expense on short- and long-term debt	(79,890)	(76,084)	(68,503)	(562)
Interest expense incurred for purchase of railway facilities	(146,718)	(140,615)	(133,570)	(1,095)
Interest and dividend income	2,772	2,485	2,898	24
Cash charges for additional obligation related to transfer to Welfare Pension (Note 2)	(70,475)	—	—	—
Other, net	13,183	2,265	7,965	66
	(281,128)	(211,949)	(191,210)	(1,567)
Income Before Income Taxes	31,565	104,422	97,575	800
Income Taxes (Note 12)				
Current	19,679	66,431	79,234	649
Deferred	—	(22,349)	(37,915)	(310)
Net Income	11,886	60,340	56,256	461
Retained Earnings at Beginning of Year	410,844	400,527	460,376	3,774
Cumulative Effect of Adopting Tax Effect Accounting	—	21,611	—	—
	422,730	482,478	516,632	4,235
Appropriations:				
Cash dividends ¥5,000 ($40.98) per share	20,000	20,000	20,000	164
Bonuses to directors and corporate auditors	185	93	185	1
Transfer to legal reserve (Note 14)	2,018	2,009	2,019	17
	22,203	22,102	22,204	182
Retained Earnings at End of Year	¥ 400,527	¥ 460,376	¥ 494,428	$ 4,053

	Yen			U.S. Dollars (Note 2)
Net Income per Share of Common Stock (Note 2)	¥ 2,972	¥ 15,085	¥ 14,064	$ 115

See accompanying notes.

NOTES TO NONCONSOLIDATED FINANCIAL STATEMENTS

EAST JAPAN RAILWAY COMPANY
March 31, 1999, 2000 and 2001

1. Incorporation of East Japan Railway Company

In accordance with the provisions of the Law for Japanese National Railways Restructuring (the Law), the Japanese National Railways (JNR) was privatized into six passenger railway companies, one freight railway company and several other organizations (JR Companies), on April 1, 1987.

East Japan Railway Company (the Company) is one of the six passenger railway companies and serves eastern Honshu in Japan. The Company operates 70 railway lines, 1,709 stations and 7,538 operating kilometers.

In the wake of the split-up of JNR, assets owned by and liabilities incurred by JNR were transferred to JR Companies, Shinkansen Holding Corporation and JNR Settlement Corporation (JNRSC). Most JNR assets located in eastern Honshu, except for the land and certain railway fixtures used by two Shinkansen lines, were transferred to the Company. Current liabilities and accrued severance and retirement benefits, incurred in connection with railway and other operations in the allotted area, and certain long-term debts were assumed by the Company.

The transfer values were determined by the Evaluation Council, a governmental task force, in accordance with the provisions of the Law. In general, railway assets such as railway property and equipment were valued at net book value of JNR. Nonrailway assets such as investments and other operating property and equipment were valued at prices determined by the Evaluation Council.

The land and railway fixtures of the Tohoku Shinkansen and the Joetsu Shinkansen lines were owned by Shinkansen Holding Corporation until September 30, 1991, and the Company leased such land and railway fixtures at a rent determined by Shinkansen Holding Corporation in accordance with related laws and regulations. On October 1, 1991, the Company purchased such Shinkansen facilities for a total purchase price of ¥3,106,970 million from Shinkansen Holding Corporation. Subsequent to the purchase, Shinkansen Holding Corporation was dissolved. Railway Development Fund succeeded all rights and obligations of Shinkansen Holding Corporation (see Note 10). In October 1997, Railway Development Fund and Maritime Credit Corporation merged to form Corporation for Advanced Transport & Technology.

In accordance with the provisions of the Law for Passenger Railway Companies and Japan Freight Railway Company, the Company is required to obtain approval from the Minister of Land, Infrastructure and Transport as to significant management decisions, including new issues of stock or bonds, borrowing of long-term loans, election of representative directors and corporate auditors, sale of major properties, amendment of the Articles of Incorporation and distribution of retained earnings.

2. Significant Accounting Policies

Basis of the financial statements

The Company maintains its books of account in accordance with the Japanese Commercial Code and accounting principles generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The Company's books are also subject to the Law for Railway Business Enterprise and related regulations for a regulated company.

The accompanying nonconsolidated financial statements are translated into English from the financial statements prepared for Securities and Exchange Law of Japan purposes. Certain modifications and reclassifications have been made for the convenience of readers outside Japan who are not familiar with Japanese accounting principles and practices.

The financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2001, which was ¥122 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Allowance for doubtful accounts

Previously, an allowance for doubtful accounts had been provided at the maximum amount deductible for the Japanese Tax Law. Beginning with the year ended March 31, 2001, the Accounting Standard for Financial Instruments has been operative. In general, the Company provides the allowance based on the past loan loss experience for a certain reference period. Furthermore, for receivables with financial difficulty which could affect the debtors' ability to perform their obligations, the allowance is provided for estimated unrecoverable amounts individually. This change had no material impact on the Company's operating results or financial position.

Inventories

Inventories are stated at the moving average cost.

Real estate for sale

Real estate for sale is stated at identified cost method. Devaluation loss on real estate for sale included in the other, net item of other expenses on the statement of income and retained earnings for the years ended March 31, 2000 and 2001 were ¥7,601 million and ¥ 6,773 million ($56 million), respectively.

Securities

Beginning with the year ended March 31, 2001, the Company adopted the new Japanese Accounting Standard for Financial Instruments.

In accordance with the new accounting standard, at April 1, 2000, the Company examined the intent of holding each security and classified those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. The Company had no trading securities through the year ended March 31, 2001. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies are stated at moving average cost. Available-for-sale securities are stated at moving average cost.

Previously, the securities of the Company are stated at weighted average cost.

These changes had no material impact on the Company's operating result or financial position.

Also, based on the examination of the intent of holding each security upon application of the new accounting standard at April 1, 2000, available-for-sale securities similar to deposits as well as held-to-maturity debt securities and available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments.

Property, plant and equipment

Property, plant and equipment are stated at cost or the transfer value referred to in Note 1 above. To comply with the regulations, contributions received in connection with construction of certain railway improvements are deducted from the cost of acquired assets. Depreciation is determined primarily by the declining balance method based on the useful lives of the assets as prescribed by the Japanese Tax Law.

Regarding the replacement method for certain fixtures, the initial acquisition costs are depreciated to 50% of the costs under the condition that subsequent replacement costs are charged to income.

Buildings (excluding related fixtures) acquired from April 1, 1998 onward were depreciated using the straight-line method according to the Japanese Tax Law.

The range of useful lives is mainly as follows:

Buildings	3 to 50 years
Fixtures	3 to 60 years
Rolling stock and vehicles	3 to 20 years
Machinery	3 to 20 years

Accounting for the payment for transfer to Welfare Pension

At the merger of mutual aid associations of three public corporations including Japan Railways Group Mutual Aid Association (the Association) to Welfare Pension (national pension) in accordance with the enforcement of revision of the Welfare Pension Law and the related regulations in 1996 (1996 Law No. 82), fund assets of the respective mutual aid associations were transferred to Welfare Pension.

According to this law, the shortage of the assets to be transferred to Welfare Pension from the Association was shared by JNRSC and JR Companies on the basis that JNRSC would be liable for the period each member of the Association was employed by JNR, and the JR Companies for the period the member of the Association was in their employment.

The portion shared by the Company amounting to ¥77,566 million was accounted for as a long-term prepaid expense included in the other item of other assets on the balance sheets and is charged to income for the five years since the year ended March 31, 1998 on a straight-line basis. The balance at March 31, 2001 amounted to ¥15,513 million ($127 million).

Additionally, in accordance with the enactment of the Law for Disposal of Debts and Liabilities of the Japanese National Railways Settlement Corporation (1998 Law No. 136) (JNRSC Liabilities Disposition Law), the JR Companies were obligated to assume half of the liabilities with regard to their employees as of April 1, 1987 that are included in JNRSC liabilities to be assumed under the 1996 Law.

The resulting additional obligation of ¥70,475 million, including the interest portion, was paid by the Company in a lump sum on March 3, 1999 and was accounted for as “cash charges for additional obligation related to transfer to Welfare Pension,” included in other expenses on the statement of income and retained earnings.

Accounting for retirement benefits

All employees of the Company are generally entitled to receive lump sum severance and retirement benefits. The amounts of the severance and retirement benefits are determined by the length of service and basic salary at the time of severance or retirement of the employees. Previously, the Company accrued a liability for such obligation equal to 40% of the amount required if all eligible employees had voluntarily terminated their employment at the balance sheet date.

The new Japanese Accounting Standard for Retirement Benefits has been operative beginning with the year ended March 31, 2001. The Company accrues liabilities for post-employment benefits at the balance sheet date in an amount calculated based on the actuarial present value of all post-employment benefits attributed to employee services rendered prior to the balance sheet date and the fair value of plan assets at that date.

The excess of the projected benefit obligation over the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the “transition obligation”) was ¥483,282 million ($3,961 million). The unrecognized transition obligation is charged to income over 10 years from the year ended March 31, 2001 on a straight line basis.

Actuarial gains and losses are recognized in expenses using the straight line basis over 10 years within the average of the estimated remaining service lives commencing with the following year.

As a result of these change, expenses for the year ended March 31, 2001 increased by ¥48,234 million ($395 million) compared with what would have been under the previous accounting methods, reducing operating income and income before income taxes by the same amount.

The Company makes no contribution to pension assets.

Accounting for certain lease transactions

Finance leases which do not transfer titles to lessees are accounted for in the same manner as operating leases under accounting principles generally accepted in Japan.

Accounting for research and development costs

According to the Accounting Standards for Research and Development Costs, etc., in Japan, research and development costs are recognized as they are incurred beginning with the year ended March 31, 2000. Research and development costs included in operating expenses for the years ended March 31, 2000 and 2001 were ¥12,896 million and ¥13,367 million ($110 million), respectively.

Income taxes

Due to a revision in Regulation Concerning Terminology, Forms and Method of Presentation of Financial Statements, the Company adopted tax effect accounting beginning with the year ended March 31, 2000 (see Note 12).

Income taxes comprise corporation, enterprise and inhabitants taxes.

Net income per share

The computation of net income per share of common stock shown in the nonconsolidated statements of income and retained earnings is based on the number of shares of common stock outstanding during each year.

The diluted net income per share is not shown, since there are no outstanding securities with dilutive effect on net income per share such as convertible bonds.

Derivative transactions

The new Japanese Accounting Standard for Financial Instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

The only derivative transaction of the Company is foreign currency swap contracts used for hedging purposes against foreign currency bonds payable through the year ended March 31, 2001, and the foreign currency bonds are recorded using the contracted swap rate, and no gains or losses on the swap contract are recognized.

Foreign currency transaction

Beginning with the year ended March 31, 2001, the Company adopted the revised Japanese Accounting Standard for Foreign Currency Transaction. This change had no impact on the Company's operating result or financial position.

3. Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with maturities not exceeding three months at the time of purchase.

4. Inventories

Inventories consist of rails, materials and supplies.

5. Real Estate for Sale

Real estate for sale represents the cost of land acquired and related land improvements in connection with residential home site developments in Higashiotsuki, which is about 90 kilometers from Tokyo, and other areas.

6. Investments in and Advances to Subsidiaries and Affiliated Companies

Investments in and advances to subsidiaries and affiliated companies at March 31, 2000 and 2001, consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2000	2001	2001
Subsidiaries:			
Investments	¥119,565	¥122,386	$1,003
Advances	1,128	2,525	21
	120,693	124,911	1,024
Affiliated companies:			
Investments	32,002	32,417	266
	¥152,695	¥157,328	$1,290

7. Market Value Information for Securities

As mentioned in Note 2 above, the Company adopted the new Japanese Accounting Standard for Financial Instruments beginning with the year ended March 31, 2001.

Book value and market value of quoted shares of subsidiaries and affiliated companies at March 31, 2001 were ¥12,334 million ($101 million) and ¥192,430 million ($1,577 million), respectively.

Net unrealized gains at March 31, 2001 were mainly composed of shares of JAPAN TELECOM CO., LTD., an affiliated company.

Information concerning available-for-sale securities with fair market values as of March 31, 2001 was as follows;

	Millions of Yen	Millions of U.S. Dollars
	2001	2001
Book value	¥148,919	$1,221
Fair market value	98,595	808
Amount corresponding to net holding losses on securities	(29,305)	(240)
Amount corresponding to applicable income taxes	21,019	173

According to the new standards, available-for-sale securities with fair market values will be stated at fair market value beginning with the year ending March 31, 2002. The unrealized gain or loss will be reported, net of applicable income taxes, as a separate component of shareholders' equity.

Market value information for securities as of March 31, 2000 is presented in the notes to consolidated financial statements.

8. Property, Plant and Equipment

Property, plant and equipment at March 31, 2000 and 2001, consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2000	2001	2001
Buildings	¥ 1,042,940	¥ 1,071,009	$ 8,779
Fixtures	4,694,983	4,700,382	38,528
Machinery, rolling stock and vehicles	1,943,006	1,973,666	16,178
Land	2,238,579	2,216,593	18,169
Construction in progress	148,293	103,806	851
Other	69,749	66,028	540
	10,137,550	10,131,484	83,045
Less accumulated depreciation	4,261,149	4,411,893	36,163
Net property, plant and equipment	¥ 5,876,401	¥ 5,719,591	$46,882

Depreciation (including that of intangible assets) for the years ended March 31, 2000 and 2001, were ¥271,298 million and ¥270,543 million ($2,218 million), respectively.

Due to Securities and Exchange Law of Japan and related regulations, consolidated semi-annual financial statements have been required to be disclosed beginning with the interim period ended September 30, 2000. Together with this change, in the above table the Company changed the grouping of property, plant and equipment from former "rolling stock" and "machinery and equipment" to "machinery, rolling stock and vehicles" and "other".

9. Long-Term Debt

Long-term debt at March 31, 2000 and 2001, is summarized as follows:

	Millions of Yen		Millions of U.S. Dollars
	2000	2001	2001
Guaranteed Bonds issued in 1991 with interest rate of 6.50% due 2001	¥ 47,010	¥ —	$ —
Nonguaranteed Bonds issued in 1992 to 2001 with interest rates ranging from 1.70% to 5.55% due 2004 to 2021	640,000	730,000	5,983
Unsecured Loans due 2001 to 2021 principally from banks and insurance companies with interest rates mainly ranging from 1.75% to 3.75%	1,383,689	1,327,316	10,880
7.25% Euro U.S. dollar bonds due 2006	87,960	87,960	721
	2,158,659	2,145,276	17,584
Less current portion	164,373	201,340	1,650
	¥1,994,286	¥1,943,936	$15,934

Issue and maturity years above are expressed in calendar years (ending December 31 in the same year).

All debt referred to in the above table as "guaranteed" is guaranteed by the Government of Japan.

All bonds are general mortgage bonds; that is, the bondholders have a preferential right to receive payment of principal and interest in accordance with the provisions of the Law for Passenger Railway Companies and Japan Freight Railway Company.

The 7.25% Euro U.S. dollar bonds in the amount of $800 million were issued in October 1996. These bonds have been hedged by a swap contract with a bank.

The annual maturities of long-term debt at March 31, 2001, were as follows:

Year ending March 31	Millions of Yen	Millions of U.S. Dollars
2002	¥201,340	$1,650
2003	315,637	2,587
2004	278,169	2,280
2005	204,769	1,678
2006	165,610	1,357
2007 and thereafter	979,751	8,032

10. Long-Term Liabilities Incurred for Purchase of Railway Facilities

In October 1991, the Company purchased the Tohoku and Joetsu Shinkansen facilities from Shinkansen Holding Corporation for a total purchase price of ¥3,106,970 million payable in equal semiannual installments through the years ending September 2051. In March 1997, the liability of ¥27,946 million payable in equal semiannual installments through the years ending March 2022 to Japan Railway Construction Public Corporation was incurred with respect to the acquisition of the Akita hybrid Shinkansen facilities.

The long-term liabilities incurred for purchase of railway facilities outstanding at March 31, 2000 and 2001, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2000	2001	2001
The long-term liability incurred for purchase of the Tohoku and Joetsu Shinkansen facilities:			
Payable semiannually including interest at a rate currently approximating 4.89% through 2017	¥1,589,156	¥1,502,249	$12,314
Payable semiannually including interest at 6.35% through 2017	524,395	506,536	4,152
Payable semiannually including interest at 6.55% through 2051	360,852	359,950	2,950
	2,474,403	2,368,735	19,416
The long-term liability incurred for purchase of the Akita hybrid Shinkansen facilities:			
Payable semiannually at an average rate currently approximating 0.04% through 2022	24,620	23,506	192
	2,499,023	2,392,241	19,608
Less current portion:			
The Tohoku and Joetsu Shinkansen purchase liability	105,735	108,950	893
The Akita hybrid Shinkansen purchase liability	1,116	1,108	9
	106,851	110,058	902
	¥2,392,172	¥2,282,183	$18,706

Maturity years above are expressed in calendar years (ending December 31 in the same year).

The annual payments of long-term liabilities incurred for purchase of railway facilities at March 31, 2001, were as follows:

Year ending March 31	Millions of Yen	Millions of U.S. Dollars
2002	¥ 110,058	$ 902
2003	88,342	724
2004	92,925	762
2005	97,756	801
2006	102,851	843
2007 and thereafter	1,900,309	15,576

11. Consumption Tax

The Japanese consumption tax is an indirect tax levied at the rate of 5%. Accrued consumption tax represents the difference between consumption tax collected from customers and consumption tax paid on purchases.

12. Income Taxes

Due to a revision in Regulation Concerning Terminology, Forms and Method of Presentation of Financial Statements, the Company has adopted tax effect accounting beginning with the year ended March 31, 2000. As a result of this revision, net income for the year ended March 31, 2000 was ¥22,349 million and retained earnings at March 31, 2000 was ¥43,960 million more than if the Company had not adopted tax effect accounting.

The major components of deferred income taxes at March 31, 2000 and 2001, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2000	2001	2001
Deferred income taxes:			
Provision for bonuses not tax-deductible	¥ 9,488	¥ 14,087	$115
Accrued enterprise tax	5,028	4,042	33
Provision for severance and retirement benefits not tax-deductible	38,619	69,864	573
Other	5,974	12,789	105
	59,109	100,782	826
Deferred tax liabilities:			
Tax deferment for gain on transfers of certain fixed assets	(13,645)	(17,308)	(142)
Other	(1,504)	(1,599)	(13)
	(15,149)	(18,907)	(155)
Net deferred income taxes	¥ 43,960	¥ 81,875	$671

Taxes on income consist of corporation, enterprise and inhabitants taxes. The aggregate standard effective rate of taxes on nonconsolidated income before income taxes was approximately 47% for the year ended March 31, 1999 and approximately 42% for the years ended March 31, 2000 and 2001, due to a reduction in the rates for income taxes applicable from the year ended March 31, 1999. After adopting tax effect accounting, the actual effective income tax rate was approximately 42% for the year ended March 31, 2001.

13. Contingent Liabilities

The Company is contingently liable for (1) the in-substance defeasance of Japanese government guaranteed railway bonds issued by the Company, which were assigned to certain banks under the debt assumption agreements and (2) the original debt in connection with the sale of the 6.625% Euro U.S. dollar bonds for which the Company entered into a long-term cross currency and interest rate swap agreement with a bank. The outstanding amounts contingently liable under such debt assumption agreements and cross currency swap agreement at March 31, 2001 were ¥62,048 million ($509 million) and $600 million, respectively.

14. Shareholders' Equity

Under the Commercial Code of Japan, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal reserve until the reserve equals to 25% of common stock. The reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors of the Company.

15. Information Regarding Certain Leases

Lease payments under finance leases which are accounted for in the same manner as operating leases for the years ended March 31, 2000 and 2001 were ¥18,332 million and ¥19,424 million ($159 million), respectively. Future lease payments as of March 31, 2001, inclusive of interest, under such leases were ¥85,969 million ($705 million), including ¥19,997 million ($164 million) due within one year.

16. Information for Derivative Transactions

The Company deals with currency swap transactions to hedge the risks of changes in foreign exchanges with respect to monetary receivables and payables denominated in foreign currencies.

Possible exposure of risks from the Company's transactions is immaterial as financial institutions with which the Company conducts derivative transactions are those with high reputations.

The Company conducts derivative transactions in accordance with the relevant internal rules and upon resolution by the Board of Directors for each transaction on the basis of basic principles resolved by the Board of Directors for the purpose of fair execution of transactions and risk management.

17. Subsequent Event

At the June 2001 annual meeting, the shareholders of the Company approved (1) the payment of a year-end cash dividend of ¥2,500 ($20) per share, aggregating ¥10,000 million ($82 million), (2) the payment of bonuses to directors and corporate auditors of ¥175 million ($1 million), and (3) the transfer of ¥1,017 million ($8 million) to legal reserve from retained earnings.

ARTHUR ANDERSEN

Asahi & Co
A Member Firm of Arthur Andersen

Report of Independent Public Accountants

To the Board of Directors of East Japan Railway Company:

We have audited the accompanying non-consolidated balance sheets of East Japan Railway Company (a Japanese Corporation) as of March 31, 2000 and 2001, and the related non-consolidated statements of income and retained earnings for each of the three years in the period ended March 31, 2001, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the non-consolidated financial position of East Japan Railway Company as of March, 31, 2000 and 2001, and the non-consolidated results of its operations for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in Japan consistently applied during the periods, except as noted in the following paragraph.

As explained in Note 2, East Japan Railway Company prospectively adopted new Japanese accounting standards for (a) financial instruments, severance and retirement benefits and foreign currency transaction in the year ended March 31, 2001 and (b) income taxes and research and development costs in the year ended March 31, 2000.

Also, in our opinion, the U.S. dollar amounts in the accompanying non-consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 2.

Asahi & Co.

Tokyo, Japan
June 27, 2001

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.